



THE SOUTHLAND CORPORATION 1982 ANNUAL REPORT



S THE SOUTHLAND CORPORATION, originator of the convenience store concept, is one of the leading specialty retailers in the United States. Its activities are grouped into four business segments:

THE STORES GROUP is the world's largest operator and franchisor of convenience stores, with 7,165 7-Eleven stores in 42 states, the District of Columbia and five provinces of Canada, as well as 84 Fiske's and Charles & Co. food stores and sandwich shops in metropolitan New York and 38 Super-7 multi-pump self-serve gasoline outlets. It also includes four merchandise distribution centers and six fast food production facilities.

The Company has equity interests in 2 R S McColl confectionery, tobacco and news (CTN) stores and six 7-Eleven units in the United Kingdom, 43 7-Eleven/näröppet stores in Sweden, and 19 Super Siete convenience stores in Mexico. An additional 2,231 7-Eleven stores are operated through area licensees in Australia, Hong Kong, Japan, Taiwan, Canada and certain areas of the United States.*

THE DAIRIES GROUP is one of the nation's major processors and distributors of dairy products which are marketed under 11 regional brand names in 50 states, the District of Columbia and Canada.

THE SPECIAL OPERATIONS GROUP includes Chief Auto Parts, which operates 273 retail stores, as well as the Chemical, Reddy Ice and Tidel Systems Divisions.

THE GASOLINE SUPPLY DIVISION is a central procurement and distribution group providing gasoline to over 60 percent of the 2,827 7-Eleven stores that sell gasoline. The Division also sells to outside customers.

*Some of these operations are not reported in Southland's Total Revenues; equity in earnings of affiliates and royalties from certain operations are included.

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John P. Thompson and Jere W. Thompson

TO OUR SHAREHOLDERS:

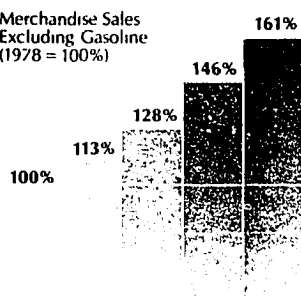
We are pleased to report that 1982 was Southland's 21st consecutive year of record revenues and earnings from operations. For the first time in the Company's history, revenues grew more than a billion dollars in a single year, increasing 18.3 percent to \$6.78 billion. Also, net earnings exceeded the \$100 million mark for the first time, gaining 16.4 percent to \$108.1 million. After adjusting for the three-for-two stock split issued January 31, 1983, primary earnings per share were \$3.02, and diluted earnings were \$2.94, both up 15.7 percent.

These results are particularly gratifying because they were achieved in an extremely adverse retailing environment. The 7-Eleven stores again proved their resiliency despite high unemployment levels and unseasonably cool and wet weather conditions nationwide that impacted our major customer segments throughout the year.

7-Eleven merchandise sales were up 12.1 percent for the year. In stores open 12 months or more, merchandise sales were up 10 percent, which after adjusting for the effect of inflation, resulted in real growth of 4.4 percent. We were very pleased with this performance because it is an important measure of store productivity. Merchandise margins were slightly below 1981 levels primarily due to significant increases in sales of high-volume, low-margin products like case beer, soft drinks and carton cigarettes.

SALES INCREASES PER STORE

Merchandise Sales
Excluding Gasoline
(1978 = 100%)



1978 1979 1980 1981 1982

Sales of 7-Eleven self-serve gasoline, available at 2,827 locations, increased 12 percent in 1982 even though the price per gallon was down. Gallonage was up over 20 percent to 1.156 billion gallons, making Southland the largest independent retailer of gasoline in the United States. And while the cents-per-gallon gross profit declined, the higher volume produced total gross profits almost equal to 1981's record level.

Total 7-Eleven sales were \$5.30 billion in 1982, or approximately one-fifth of the convenience store industry's sales. Southland, which operates more stores than its next seven competitors combined, maintains its leadership of this ever-changing, fast-growing industry primarily in two ways.

First, we've aggressively added new stores over the years, even during difficult economic times like the present. Since 1978, we've invested over \$1 billion in Southland's future, most of which was spent to improve and expand Stores Group operations, including the addition of over 2,300 new 7-Eleven stores. Southland maintained this expansion pace in 1982, opening 434 new stores — most on high quality corners. At the end of the year, 7,165 7-Eleven stores were in operation.

FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share data)

Year Ended December 31

For The Year	1982	1981	% Change
Total Revenues	\$6,782,383	\$5,734,160	18.3
Net Earnings	108,051	92,860	16.4
Primary Net Earnings Per Share*	3.02	2.61	15.7
Diluted Net Earnings Per Share*	2.94	2.54	15.7
Cash Dividends	27,657	24,859	11.3
Return on Beginning Shareholders' Equity	17.6%	17.0%	
At Year-End			
Working Capital	85,867	135,626	(36.7)
Current Ratio	1.16	1.27	
Long-Term Debt	386,304	320,918	20.4
Shareholders' Equity	703,348	612,221	14.9
Book Value Per Share*	19.48	17.23	13.1
Annual Dividend Rate Per Share*	.77	.70	10.5
Average Shares Outstanding ('000's)*	35,773	35,514	.7
Number of Shareholders	7,532	7,336	2.7
Number of Employees	49,900	49,600	.6

*Adjusted for January 1983 stock split.





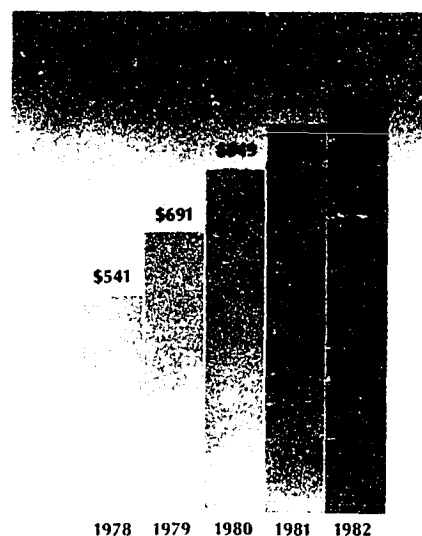
Secondly, and more importantly, we are working to increase sales and earnings in our existing units. We consider this our "real growth" because, in addition to opening new stores, anything we do to increase the sales and profit potential in existing stores can yield significant results. Taken on an individual store basis, the introduction of even a very successful new product may not seem too meaningful. But multiplied by the volume provided by 7,000 stores at key neighborhood locations, it is an extremely important element of added growth.

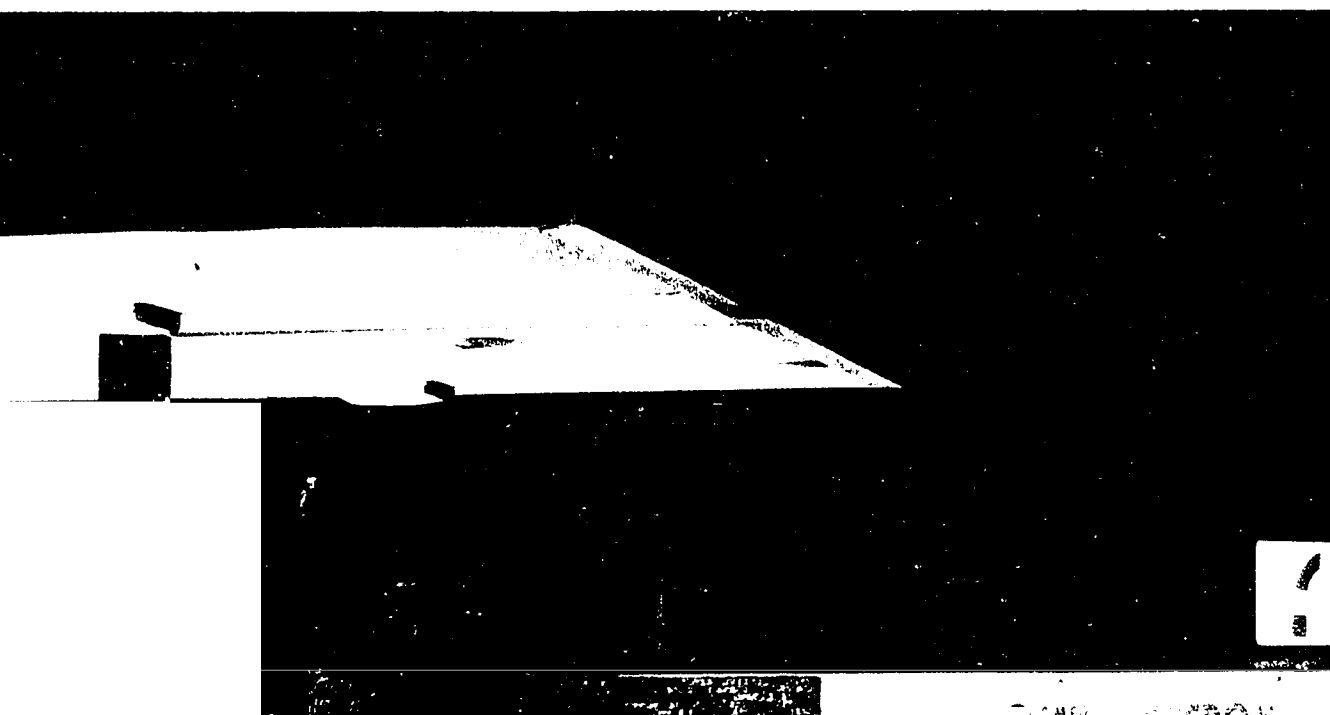
Our concentration on increasing store productivity takes a number of different directions.

For instance, we emphasize greater productivity through constant improvement in the mix of 3,000 products stocked by each store. Many new products have been introduced over the past several years, including 7-Eleven Danish pastries, fountain soft drinks, video games, burritos and juices. All of these have been very successful, and we continue to search for new products and services that can improve the quality of the product mix. At the same time, many of our established products still have excellent sales potential. A perfect example is "Slurpee," our frozen carbonated drink, which has found new sales life in recent years through promotional programs, even though it was originally introduced back in the 1960s.

Successful products are very important, but they are only part of the productivity picture. High quality, motivated store managers, franchisees and store personnel, achieved through extensive training programs and improved compensation packages, have added much to individual store productivity. And we keep looking for new and better ways to expand productivity through people. For example, we've just completed a year-long study of store operations to determine the staffing levels and work procedures necessary to achieve maximum efficiency. This enhances our ability to better control operating costs at the store level, while also improving the work environment.

We've also increased store productivity by designing 7-Eleven stores to operate more efficiently. This includes more effective merchandising and better interior layout to provide a clean and modern look, easier maintenance, control of customer traffic and strategic product placement — all of which contribute to store sales and profits.

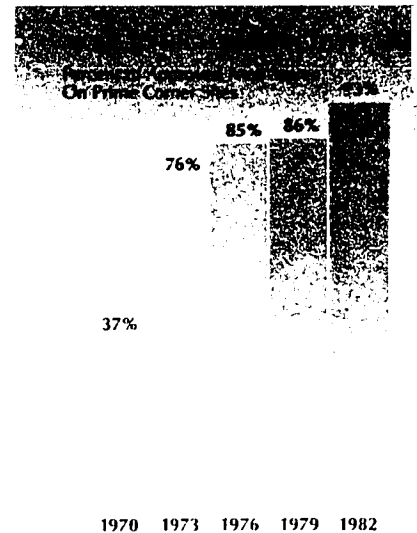




We feel that our **emphasis on more accessible and visible stores on high-traffic corners is another key to greater productivity.** Almost 90 percent of our new store sites acquired during the past five years have been on corners. These sites are more expensive, but they greatly increase the stores' customer count and average sales per person. Also, corner locations are more suitable for selling gasoline which substantially increases the overall sales and profit potential of the stores.

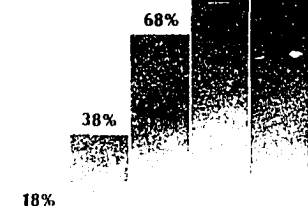
In addition to our emphasis on prime corner sites, we continue to measure existing stores against high sales and earnings standards. As our productivity standards go up, stores on marginal sites or in deteriorating markets are pruned from the system. As a result, **we have an excellent base of high quality locations that provide 7-Eleven with a significant competitive advantage.**

We also have found that store productivity can be increased by expanding our marketing and advertising programs. We blend national and local television, spot radio and print advertising to promote our new advertising theme, "America Likes The Freedom Of 7-Eleven." Introduced in early 1982, this slogan promotes the hassle-free, time-saving personal freedom of shopping at 7-Eleven. Another part of our marketing approach emphasizes competitively priced, high-volume products like gasoline, bread, milk and case beer. **These promotional programs have increased store traffic and sales while countering the "high price" image that customers may associate with convenience stores.**



INTERNAL INTEGRATION

Percent 7-Eleven Stores Served by Other Southland Divisions*



REDDY ICE GASOLINE SDC'S DAIRIES TIDEL

*Products of the Chemical Division are used indirectly by approximately 80 percent of the 7-Eleven stores.

Developing related Southland operations that directly support 7-Eleven is another important way we improve store productivity. For instance, the four **Southland Distribution Centers (SDC)** service the needs of almost 4,900 stores. This highly automated system is designed to maintain the stores' well-stocked position through frequent deliveries of small quantities of goods — usually in less than case lots. As a result, the stores can use their limited selling space more efficiently, offering a wider selection of products, increasing inventory turnover and ensuring the freshness of products on the shelves.

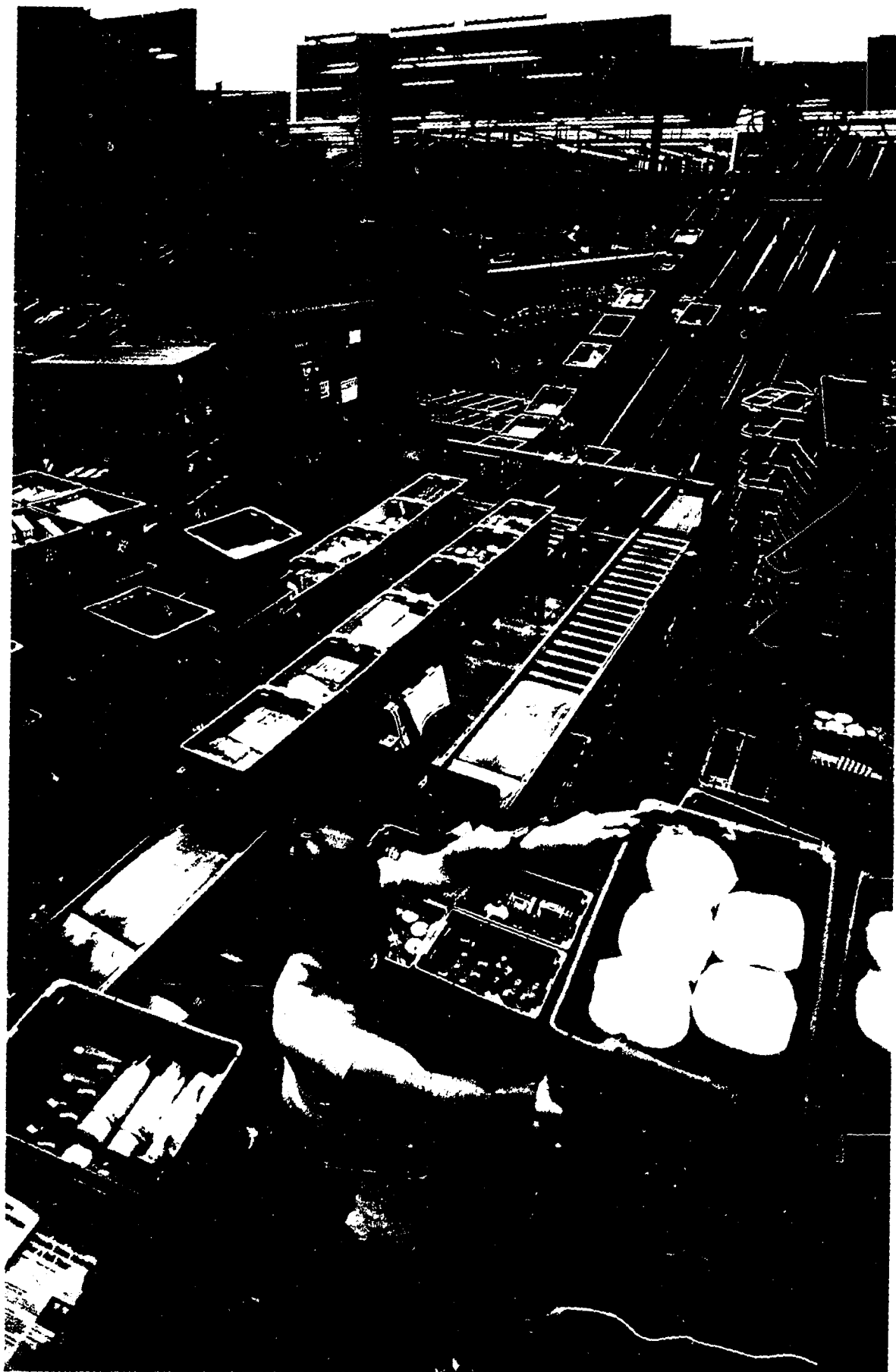
The Dairies Group supplies almost 90 percent of the stores with products ranging from milk and ice cream to cultured products, frozen confections and fruit juices. The Company's six food centers develop and produce an extensive selection of sandwiches, burritos and bakery goods that form the nucleus of our fast foods program. The stores also purchase products from Reddy Ice and Tidel Systems, while the Chemical Division indirectly supports the stores by manufacturing products sold to the other divisions.

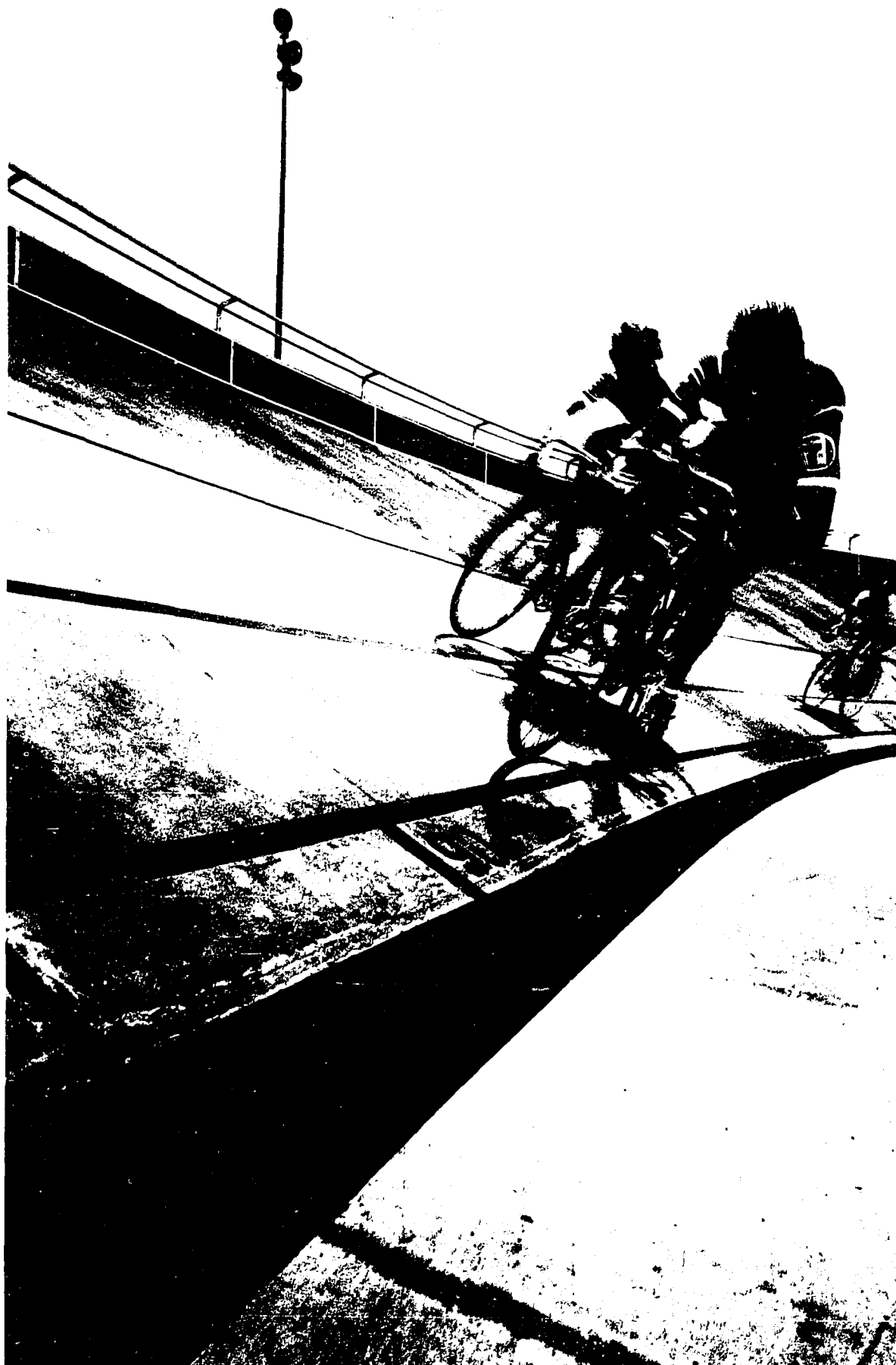
Southland's newest support unit, the Gasoline Supply Division, was formed in December 1981 to supply 7-Eleven stores at the lowest available price. Through its centralized procurement and distribution activities, the Division was supplying about 60 percent of 7-Eleven needs by the end of 1982.

As you can see, we are increasing 7-Eleven productivity through **better products and services for our customers ... better personnel ... better stores and locations ... better marketing and promotion ... and better support from other Southland operations.** Together, they're providing positive, long-term benefits to our store operations, producing added sales in older stores and increasing the sales potential of new units.

Looking at the year-end operating results of our other units, Chief Auto Parts showed encouraging progress, with sales up 36 percent and a \$2.8 million reduction in its operating loss from 1981. In February 1983, Chief opened its first stores in the fast-growing Houston area as another phase in its development of the Texas market.

Total Dairies Group sales increased 3.2 percent to \$584.8 million for the year. Operating profit was up almost 30 percent due to the Group's continuing emphasis on sales of high-margin products and reductions in operating expenses. However, charges associated with the disposition of three milk plants and volume reductions at a fourth, as well as a smaller interest income allocation, reduced the Group's segmented operating profit. The Gasoline Supply Division had an excellent first year, as its sales and operating earnings contributed significantly to Southland's 1982 results.





In December, the Board of Directors declared a three-for-two stock split payable January 31, 1983, in the form of a 50 percent stock dividend. **The Board also increased the Company's annual cash dividend payment for 1983 by 8.6 percent to a rate of 84 cents per share after the stock split.** It will be effective with the first quarterly payment of 21 cents per share on March 22, 1983, to shareholders of record March 1.

In 1982, Southland continued its tradition of commitment to national and local community causes. Our employees and franchisees, supported by our customers and suppliers, raised \$1.4 million for the March of Dimes during the second nationwide "WalkAmerica" held in April. That was followed in September with the Muscular Dystrophy Association Labor Day Telethon, where the "Southland Family" raised \$3.7 million to support the MDA's research and services programs, leading all corporate fund-raising efforts for the seventh consecutive year.

In its role as a major corporate sponsor for the 1984 Olympic Games in Los Angeles, Southland funded the 7-Eleven Velodrome for Olympic cycling events. Dedicated in July, it was the first facility to be completed for the Games, and will also be used to train American cyclists. In addition, Southland is a sponsor of the United States Olympic Committee's training program for American athletes. **As 1984 draws nearer, the Olympic theme will become a more prominent element in Southland's promotional, advertising and merchandising programs.**

Looking back on this excellent year, Southland's emphasis on increased productivity in the stores and other operations made a valuable contribution to our record results. This concentration on better locations, new products, better marketing techniques and strong internal cost controls, as well as highly trained and motivated employees and franchisees, will continue to be key to the Company's future growth. **We are proud of the outstanding performance of our employees and franchisees during the past year and appreciate their many contributions to Southland's success.**



John P. Thompson
Chairman



Jere W. Thompson
President

March 10, 1983

STORES GROUP

(Millions)	1978	1979	1980	1981	1982	5 Year Compound Growth
Sales	\$2,784.0	\$3,453.0	\$4,294.1	\$5,114.5	\$5,708.1	20.3%
Operating Profit	140.0	143.3	174.4	219.9	224.9	14.4

The Stores Group includes Southland's primary business, 7,165 7-Eleven convenience stores, as well as the Regional Distribution Centers and Food Centers which support the stores. Other divisions in the Group are Gristede's food stores and Charles & Co. sandwich shops and gourmet stores, Super-7 multi-pump self-serve gasoline outlets, and the International Division, which is responsible for all Company affiliates and area licensees.

Outside sales of the Stores Group, which do not include sales of licensees or affiliates, reached \$5.71 billion in 1982, up 11.6 percent, and represented 84 percent of Company sales. Operating profits for the Group were \$224.9 million for the year.

7-Eleven Sales Set Record

7-Eleven sales were up 12.1 percent to a record \$5.30 billion. Both merchandise and gasoline showed solid gains, even in an extremely difficult operating environment. Merchandise sales increased 12 percent, and the real sales growth of stores open 12 months or more surpassed four percent after adjusting for the effects of inflation. Self-serve gasoline sales were up over 12 percent due to a 20 percent increase in gallonage, which offset the lower average price per gallon.

7-Eleven Openings Increase

At year-end, 4,327 Company-operated and 2,838 franchised 7-Eleven stores were open in 42 states, the District of Columbia and five provinces of Canada. During the year, 434 stores were



opened, the highest number since 1979. About 90 percent of the new stores were on high-quality corner locations. Of the 271 units closed this year, 30 percent were relocations to corners, with the remainder closed mainly due to population shifts, changing traffic and neighborhood patterns, and lease expirations.

"America Likes The Freedom Of 7-Eleven"

"The Freedom of 7-Eleven" is getting "what you want, when you want it, where you want it," to millions of Americans each day. The 7-Eleven stores' new advertising theme employed a nationally coordinated program of television commercials, radio spots and print advertising to emphasize the convenience of quick in-and-out service with its "freedom from the hassle" of supermarket crowds and "freedom from delay" at long check-out lines. 7-Eleven stores also offered "freedom of choice" and competitive prices at the soda fountain with a selection of six soft drink flavors, including Coca-Cola and Pepsi-Cola side-by-side—a first in the soft drink industry.

A "Freedom Super Prices" program heightened customer awareness of 7-Eleven competitive pricing of selected high-volume items such as take-home soft drinks, selected dairy and bakery products, cartons of cigarettes and case beer. Immediate customer acceptance resulted in significant volume gains in these featured items.

Training Develops Store Management Skills

Well-trained store personnel and franchisees are crucial to the Company's success. Not only must they master more complex and demanding store operations, but they also serve as Southland's representatives to almost seven million customers each day. Because of this, Southland places a very high priority on developing professional, success-oriented store managers and franchisees.

Last year, nearly 2,300 employees attended the Store Managers Training Program, while more than 500 completed the more stringent requirements to become "Certified Store Managers." Certification includes both advanced classroom instruction in all aspects of store operations and a training and evaluation period tailored to the managers' individual needs. Store clerks attend the three-day New Employee Training Program at any one of over 300 designated training stores to be oriented in store operations.

New franchisees and their representatives attend an intensive 10-day training program, where classroom instruction is combined with "hands on" experience to develop their basic



STORE SUMMARY

	Opened	Closed	End of Year
7-Eleven			
United States	380	266	6,868
Canada	54	5	297
Total	434	271	7,165

Chief Auto Parts	41	33	273
Gristede's	1	14	84
Super-7	5	2	38
Total	481	320	7,560

R S McColl — United Kingdom			
CTN	9	23	332
7-Eleven	0	10	6
Total	9	33	338

Affiliated Stores

Sweden			
7-Eleven/näröppet	10	0	43

Mexico			
Super Siete	1	0	19
Total	11	0	62

7-Eleven — Area Licensees			
Japan	368	22	1,593
United States	48	4	470
Australia	21	0	61
Taiwan	14	2	58
Hong Kong	25	0	33
Canada	1	0	16
Total	477	28	2,231

7-Eleven's "Freedom Super Prices" program stimulates store traffic through a combination of advertising and in-store displays promoting selected high-volume, competitively priced merchandise.

store management skills. This is followed by another week of classroom instruction and the "In-Store Skills Development Program" that assists franchisees in transferring their classroom skills to day-to-day operations.

Gasoline Volume Up 20 Percent

In 1982, Southland became the largest independent gasoline retailer in the nation. 7-Eleven self-serve gasoline gallonage increased over 20 percent from 1981 levels to 1.156 billion gallons. Part of this growth resulted from the addition of 310 7-Eleven gasoline units, raising the total to 2,827 at year-end. The Company also maintained competitive pricing on a neighborhood basis, producing a solid increase in average unit gallonage.

Self-serve gasoline, while accounting for one-fourth of total 7-Eleven sales, also aided merchandise sales, since approximately 30 percent of gasoline customers also purchase other items. And while abundant supplies pressured the cents-per-gallon gross profit to its lowest level since 1978, higher gallonage produced total gross profit dollars almost equal to the record 1981 level.

Three new Super-7 high-volume, self-serve gasoline stations were opened, increasing the total to 38 at year-end. These multi-island stations, located mainly on the West Coast, sold 59 million gallons of gasoline during the year that are not included in 7-Eleven totals.

Gristede's Means Quality

Gristede's has been the prestige grocer to the greater New York City area for over 90 years, providing premium-quality products and customer conveniences such



Southland added 434 stores in 1982 — the largest number since 1979.

as telephone ordering, home delivery and charge accounts. Including a new sandwich shop in the Wall Street district, 67 Gristede's locations and 17 Charles & Co. sandwich shops and gourmet stores were open at year-end. Fourteen units were closed during the year as the Division continued to improve the sales and profit potential of its store base.

Licenseses, Affiliates

Add 436 Net New Stores

In addition to the Company's 7-Eleven stores, a total of 2,631 7-Eleven and other small retail units were operated at year-end by area licensees or Company affiliates in the United States and eight other countries.

The Japanese licensee, Seven-Eleven Japan Co., Ltd., once again led international development activity, with 1,593 7-Eleven stores open at year-end, 346 more than in 1981. In Australia, 52 stores were open in Melbourne, seven in Sydney and two in the new Brisbane market, 21 more than last year. The licensee for Taiwan increased to 58 units from 46, and in Hong Kong the number was quadrupled from eight to 33. In the United States, eight 7-Eleven licensees for designated areas in 23 states ended the year with a 44-unit increase to 470 stores.

R S McColl, Southland's United Kingdom affiliate, added nine units, remodeled 21 and closed 33, ending the year with 332 CTN



and six 7-Eleven stores. Naröppet, Southland's Swedish affiliate, added 10 convenience stores and now operates 43 units in the Stockholm area, including 37 under the "7-Eleven/naröppet" name. Southland also owns an equity interest in 19 Super Siete convenience stores in Mexico, including 13 in Monterrey and six in Mexico City.

Food Centers Add Bakery Products

Southland's six Food Centers produce about 30 varieties of sandwiches, as well as French bread pizzas, burritos, snack cakes and other fast food items for distribution to 7-Eleven and other customers nationwide. They are located at each of the Distribution Centers and in Salt Lake City and

PERCENT CONVENIENCE STORE SALES (by Principal Product Category)

	1982	1981	1980	1979	1978
Gasoline	25.3%	25.3%	23.0%	17.2%	13.4%
Tobacco Products	13.1	12.1	12.3	12.9	12.9
Beer/Wine	11.9	11.7	11.7	12.4	12.9
Groceries	10.8	11.5	12.4	12.6	13.4
Soft Drinks	9.8	10.0	10.1	10.3	10.9
Non-Foods	8.7	8.1	8.0	8.7	9.4
Dairy Products	5.9	6.3	6.7	8.4	8.9
Other Food Items	5.0	5.2	5.6	6.2	5.5
Candy	3.9	4.0	4.0	4.3	4.7
Baked Goods	3.0	3.2	3.4	3.8	4.6
Health/Beauty Aids	2.6	2.6	2.8	3.2	3.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%

The Company does not record sales by product lines, but estimates the percentage of convenience store sales by principal product category based upon total store purchases.

St. Louis. In addition, the Centers processed 1.3 million gallons of flavored syrup for "Slurpee," the semi-frozen carbonated drink sold only in 7-Eleven.

During the year, the St. Louis Food Center was converted to produce "Aunt Bea's" bakery products, and in November began production of a high-quality selection of snack cakes and brownies packaged in individual portions for retail and institutional sales. The "Smileys Vend-Line" sandwiches and other fast food products introduced in 1981 for vending machines was expanded during the year to meet the growing demand for these items.

Distribution Centers' Outside Sales Up Strongly

Four Regional Distribution Centers located in Florida, Illinois, Texas and Virginia serve customers in 35 states and the District of Columbia, including 4,870 or 68 percent of the 7-Eleven stores. Total sales increased 12.6 percent to \$880.8 million, and operating profits were up strongly for the year. The Champaign, Illinois, Center serving the depressed Midwest was not yet profitable.

The Centers utilize a computerized merchandise distribution system specially designed to answer the convenience stores' unique requirements. These include frequent deliveries of less than case lot quantities from a selection of over 1,700 items stocked at the Centers. Other system advantages include higher inventory turns, less excess inventory, fresher merchandise on the shelves and greater flexibility in handling seasonal and promotional products. For the ninth consecutive year the Centers achieved a 99 percent order fill rate.

Outside sales continued to climb, with the Centers serving almost 1,200 retail units, primarily other convenience stores, and approximately 1,000 food service accounts including fast food and sit-down restaurants, airline caterers and health care facilities. Sales to these outside businesses increased 24.1 percent to \$162.4 million in 1982.

(Millions)	1978	1979	1980	1981	1982	5 Year Compound Growth
Outside Sales	\$252.8	\$313.9	\$358.5	\$368.2	\$355.0	8.5%
Intracompany Sales	135.6	158.6	175.2	198.3	229.8	12.8
Total	388.4	472.5	533.7	566.5	584.8	10.1
Operating Profit	6.1	9.7	15.3	13.3	12.5	16.6

The Dairies Group, one of the nation's major dairy processors and distributors, operates through 11 well-known regional brand names to provide products to 7-Eleven and other customers in all 50 states, the District of Columbia and many parts of Canada. With 24 processing plants and 78 distribution points, the Group supplies about 59 percent of the total dairy requirements of 6,328 7-Eleven stores, including milk, ice cream, frozen confections, cultured products, ultra-pasteurized creams, juices, juice-based drinks and related products.

During 1982, the Group's activities continued to center on several important objectives: to expand its customer base; to reduce further its overall production and distribution costs, and to provide additional production capacity to meet the growing demand for higher margin products. As part of the cost reduction program, the Group completed disposition of three marginal milk processing plants during the year and began phasing out the Wanzer's milk operation in Chicago. The resulting year-end charges against the Group's operating profits, which were up almost 30 percent before the charges, caused a six percent decline in segment operating profits to \$12.5 million. Total sales were up slightly to \$584.8 million, while outside sales, representing five percent of the Company total, declined 3.6 percent to \$355.0 million.



Dairies Expand Sales Of Higher Margin Products

One of the major challenges for the Dairies in 1982 was to replace the sales volume that was lost in 1981 due to the substantial reduction in federal funding of school lunch and other social feeding programs, as well as the planned closing of several operations during the year. Through an aggressive marketing effort, the Dairies successfully added a number of institutional accounts such as hotels, restaurants and food service companies, and expanded the sales of many higher margin products, including juices and juice-based drinks, premium ice cream and frozen confections.

The Dairies Group successfully added to its line several unique "branded" products which it was licensed by other companies to produce. The Group also developed and marketed a number of high-quality products, including "Cabell's 50th Anniversary Ice Cream," "Barricini" premium

quality ice cream and "Mission San Juan" all-natural gourmet fruit juices.

Production Capacity Increased

The Dairies Group continued to expand and modernize its production facilities to achieve greater productivity and efficiency, as well as to increase capacity for higher margin products. For example, Merritt Foods, acquired in August 1981, provided the opportunity to increase production and distribution of frozen confections and enlarge the product assortment. Merritt, based in Kansas City, Missouri, produces a wide range of unique frozen treats, including the very popular "Bomb Pop," which is distributed throughout the United States and Canada. To supply the growing demand for frozen confections, Merritt's production capacity has already been expanded by 40 percent.

Other expansion projects include quadrupling milk processing capacity at the Velda Farms Winter Haven, Florida, plant to serve better the fast-growing Orlando and Tampa markets. The Specialty Products plant in Sulphur Springs, Texas, increased the capacity and efficiency of its juice facilities. Other cost-reduction additions included in-plant blow molding of plastic containers at Embassy in Waldorf, Maryland, and at the Houston plant of Oak Farms.



Since 1990



Adams Farms • California
Barnhart • Wisconsin
Cabell's • Texas
Embassy • Maryland
Hartmann • Pennsylvania
Knowlton's • Texas
Merritt Foods • Missouri
Midwest Farms • Tennessee
Oak Farms • Texas
Specialty Products • Texas
Velda Farms • Florida
Wanzel's • Illinois



(Millions)	1978	1979	1980	1981	1982	5 Year Compound Growth
Outside Sales	\$ 39.7	\$ 89.3	\$106.1	\$126.1	\$151.2	36.1%
Intracompany Sales	15.3	23.2	16.2	14.1	13.7	—
Total	55.0	112.5	122.3	140.2	164.9	28.6
Operating Profit	5.6	7.4	(3.1)	(9.5)	(3.1)	—

The Special Operations Group includes Chief Auto Parts and several other businesses which supply a variety of products to Southland operations as well as a wide range of outside customers. Total sales increased 17.6 percent to \$164.9 million, with outside sales of \$151.2 million providing two percent of Company sales. All four divisions enjoyed significantly improved performances and as a Group reported a \$3.1 million loss compared with a \$9.5 million loss in 1981.

Chief Performance Shows Excellent Improvement

Chief is one of the nation's leading convenience retailers of automobile replacement parts and accessories for "do-it-yourself" car owners. A total of 273 stores were open at year-end, including 180 in California, 80 in Texas, 12 in Nevada and one in Arizona.

Chief's sales increased 35.9 percent in 1982 due to the larger number of units open, as well as gains in stores open more than a year. The Division's operating loss was reduced 34.4 percent to \$5.4 million mainly due to expanded merchandising and advertising programs, greater emphasis on cost controls, improved training of personnel and more stores reaching profitable sales levels.

The expansion pace was slowed in 1982 with only 41 stores opened — half the 1981 total. At the same time, 33 marginal stores were closed, many of them relocations to better sites. In the California market, Chief opened additional



stores in the San Joaquin Valley and now operates units from San Diego north to Sacramento. In Texas, the Division strengthened its position in the Dallas-Ft. Worth metroplex, and in early 1983 opened its first stores in the Houston market.

Chief's remerchandising program, with its emphasis on fast-selling products and self-service displays, was almost completed in 1982, increasing significantly the sales potential of the individual units. In addition, the warehousing and distribution operations implemented additional cost-reduction measures, while warehouse inventory turns were up substantially from the prior year.

Chemical Profits Up

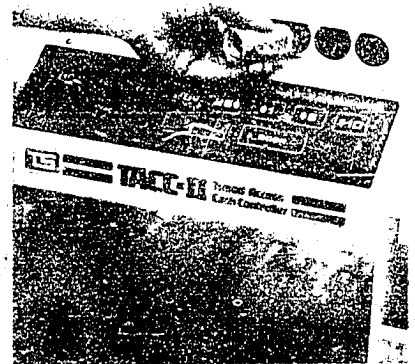
The Chemical Division, which manufactures a broad selection of food ingredients and specialty chemicals, experienced a substantial improvement in profitability in 1982, mainly due to inventory and labor efficiencies instituted during the year. Total sales were down

13.9 percent due to the adverse effect of the recession on outside sales, which represented 79 percent of Division revenues. Demand was down for agricultural intermediates, oil field services compounds and industrial chemicals produced by the Chicago and Great Meadows, New Jersey, plants.

The food ingredients plants in Dallas and Sanford, Florida, showed encouraging growth during the year. Renamed The Southland Food Labs, these operations reflect the Division's growing production and marketing activities in the dairy, bakery and food processing industries. The Food Labs provided about half of Division revenues, producing products ranging from preservatives and emulsifiers to "Slurpee" flavor concentrates and "Nature-Lock" aseptically processed fruits and flavors.

Reddy Ice Adds Seventh Plant

Reddy Ice increased its emphasis on direct sales to customers, rather than sales through distributors. As a result, total sales were up 19.1 percent during the year, with outside customers accounting for 68 percent of total sales. In addition, earnings were up substantially as margins improved and cost controls proved effective. Reddy Ice also expanded its production capacity in the Texas Gulf Coast area with the acquisition of a second plant. The Division's five other ice plants are in Dallas, Waco and Austin, Texas; Ft. Lauderdale, Florida, and Las Vegas. Reddy Ice also serves customers in Arizona, Arkansas, California, Colorado and Utah.



All four divisions in the Special Operations Group reported significant improvement in 1982. Chief increased sales of auto parts to "do-it-yourselfers." Reddy Ice expanded its direct sales and acquired a seventh plant. Outside sales of Tidel's Cash Controller were up substantially. And the Chemical Division increased emphasis on food ingredients, such as Slurpee flavorings.

Tidel Cash Controller Sales Up

Tidel Systems expanded the production and sale of its "Timed Access Cash Controller" (TACC II), a microprocessor-controlled cash-dispensing system and drop safe developed by the Division for cash-oriented retailers. While Southland was Tidel's largest customer, 61 percent of total sales in 1982 were to outside customers, including other convenience store chains, service stations and fast food outlets. Because of this higher volume and tight control of operating costs, Tidel almost reached breakeven, compared with a \$1.3 million operating loss the prior year.

In 1982, Tidel expanded production of display racks, dollies and other specialized equipment for Southland operations and outside customers. The Division also continued to develop and test several new microprocessor-controlled products. These include the "Cashier" modular TACC for multiple counter applications in larger retail stores, the "RTU 80" remote-controlled telemetry unit for monitoring natural gas and oil flow through pipelines, and the "Energy Manager" utility monitoring and conservation system.

(Millions)	1981*	1982
Outside Sales	\$ 84.8	\$ 542.6
Intracompany Sales	18.5	713.2
Total	103.3	1,255.8
Operating Profit	3.0	23.0

*The Gasoline Supply Division was formed in December 1981.

The Gasoline Supply Division completed its first year of operation with total sales of \$1.26 billion, including \$542.6 million, or eight percent of Company sales, to outside customers. Operating profits were \$23.0 million for the year.

This new division was formed in December 1981 to serve the extensive gasoline procurement and distribution needs of 7-Eleven. Since adding self-serve gasoline in 1965, Southland has expanded this product to over 2,800 7-Eleven stores. Today, Southland is the largest independent retailer of gasoline in the United States.

Consolidating all 7-Eleven regional and local gasoline purchasing activities, the Gasoline Supply Division provides the advantages of large-scale centralized buying, better control of supply and delivery to 7-Eleven stores at the lowest available price.

Gasoline distribution is accomplished either through direct supply by the Division or through exchange arrangements with other suppliers. By year-end 1982, the Division was supplying 60 percent of 7-Eleven's gasoline requirements. As a part of its buying and distribution activities, the Division has also expanded the Company's wholesaling business, which accounted for a large portion of this segment's earnings in 1982.

FINANCIAL REVIEW



SELECTED FINANCIAL DATA

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

	1982	1981	1980	1979	1978
(Dollars in thousands, except per share data)					
Operations (Notes 1 and 3)					
Net sales	\$5,756,933	\$5,693,636	\$4,758,656	\$3,856,222	\$3,076,532
Other income	25,450	40,524	23,949	19,837	13,562
Total revenues	6,782,383	5,734,160	4,782,605	3,876,059	3,090,094
Increase over prior year	18.28%	19.90%	23.39%	25.43%	21.40%
Net earnings	108,051	92,860	76,506	81,251	56,213
Increase over prior year	16.36%	21.38%	(5.84)%	44.54%	26.07%
Per revenue dollar	1.59%	1.62%	1.60%	2.10%	1.82%
Return on beginning shareholders' equity	17.65%	17.03%	15.62%	22.05%	17.30%
Pro forma earnings (Note 2)	108,051	92,860	76,506	66,383	59,473
Increase over prior year	16.36%	21.38%	15.25%	11.62%	26.71%
Assets Employed (Notes 1 and 3)					
Working capital	85,867	135,626	174,966	147,057	125,313
Current ratio	1.16	1.27	1.44	1.46	1.46
Property, plant and equipment including capital leases (net)	1,159,337	963,865	854,010	838,796	677,284
Depreciation and amortization	121,701	100,831	89,847	79,111	67,724
Total assets	1,842,584	1,672,171	1,496,242	1,367,575	1,134,476
Capitalization (Notes 1 and 3)					
Long-term debt	386,304	320,918	312,535	326,893	261,461
Capital lease obligations	196,676	213,585	224,753	226,257	211,342
Shareholders' equity	703,348	612,221	545,282	489,721	368,473
Total capitalization	1,286,328	1,146,724	1,082,570	1,042,871	841,276
Shareholders' equity to total capitalization	54.68%	53.39%	50.37%	46.96%	43.80%
Per Share Data (Notes 1, 3 and 4)					
Primary Earnings	3.02	2.61	2.16	2.43	1.75
Earnings assuming full dilution	2.94	2.54	2.10	2.35	1.70
Pro forma primary earnings (Note 2)	3.02	2.61	2.16	1.99	1.85
Pro forma earnings assuming full dilution (Note 2)	2.94	2.54	2.10	1.93	1.79
Cash dividends	.77	.70	.62	.52	.42
Shareholders' equity at year-end	19.48	17.23	15.37	13.82	11.46
Other Data					
Cash dividends	27,657	24,859	21,511	17,382	13,628
Dividends as a % of prior year net earnings	29.78%	32.49%	26.47%	30.92%	30.56%
Stock dividends	—	—	3%	3%	3%
Average shares outstanding (Note 4)	35,772,689	35,513,515	35,460,071	33,411,394	32,116,432
Average diluted shares (Note 4)	36,970,068	36,899,129	36,875,263	34,901,913	33,624,874
Market price range (Note 4)					
High	31½	23⅞	19½	20⅞	21⅞
Low	17	13⅞	11⅞	15¼	13½
Year-end	25⅞	21⅞	13⅞	18⅞	16⅞
Number of shareholders	7,532	7,336	8,429	8,708	8,627
Number of employees	49,900	49,600	46,800	44,300	37,000

Notes:

- (1) The years 1978 through 1980 have been restated to reflect the 1981 change in accounting for vacation pay
- (2) Earnings data for the year 1978 has been restated to reflect the 1979 change in accounting for investment tax credits.
- (3) The years 1980 and 1981 have been restated to reflect the 1982 change in accounting for foreign currency translation. The effect on years prior to 1980 was not material
- (4) Adjusted for stock dividends and January 1983 stock split

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Accounting Information for the Three-Year Period 1980-1982

Effective January 1, 1982, the Company adopted Statement of Financial Accounting Standards No. 52 (SFAS No. 52), "Foreign Currency Translation," which revises the accounting and reporting requirements for translation of foreign currency financial statements. The primary revision for certain foreign operations is the use of the current exchange rate for some balance sheet accounts (principally property, plant and equipment) and the average exchange rate for related income statement items (principally depreciation expense) in place of historical exchange rates. The translation adjustments are made directly to shareholders' equity. The consolidated financial statements for 1981 and 1980 have been restated to reflect this change. In 1981, the Company adopted Statement of Financial Accounting Standards No. 43 (SFAS No. 43) which requires an expense accrual for vacation time earned but not taken. The consolidated financial statements for 1980 and prior years have been restated to comply with SFAS No. 43. When 1979 earnings are required for calculation of percentage gains for 1980, pro forma earnings are used. Pro forma earnings for 1979 remove the cumulative effect of the accounting change made that year from the deferral to the flow-through method of accounting for investment tax credits (ITC) and present the year as if on the flow-through method.

Earnings and dividends per share and market data comparisons for 1982, 1981 and 1980 reflect the effect of a 3-for-2 stock split which occurred in January 1983 and a 3% stock dividend in 1980.

RESULTS OF OPERATIONS:

Revenues

Revenues (net sales of products and merchandise, including sales by 7-Eleven stores operated by franchisees, and other income) established record highs in each of the past three years.

Revenues (Millions)	1982	% Gain	1981	% Gain	1980	% Gain
Net Sales						
Stores						
Group	\$5,708.1	11.6	\$5,114.5	19.1	\$4,294.1	24.4
Dairies						
Group	355.0	(3.6)	368.2	2.7	358.5	14.2
Special Operations						
Group	151.2	19.9	126.1	18.9	106.1	18.8
Gasoline Supply	542.6	539.9	84.8	—	—	—
Total Sales	6,756.9	18.7	5,693.6	19.6	4,758.7	23.4
Other Income	25.5	(37.0)	40.5	69.5	23.9	20.7
TOTAL	\$6,782.4	18.3	\$5,734.1	19.9	\$4,782.6	23.4



Earnings increased \$15.7 million for cumulative effect of changing to flow-through method of accounting for ITC.

The Stores Group accounted for 84.5%, 89.8% and 90.2% of total sales in 1982, 1981 and 1980, respectively. 7-Eleven volume in 1982, representing 78% of total sales, increased 12.1% to \$5.30 billion, following gains of 19.1% to \$4.73 billion in 1981 and 23.7% to \$3.97 billion in 1980.

For 1982, 7-Eleven sales, excluding gasoline, were up 12.1% to \$3.96 billion after increases of 15.4% and 15.8% in 1981 and 1980. These gains resulted from existing store sales increases substantially in excess of the rate of inflation and the net addition of 163, 107 and 90 7-Eleven stores in 1982, 1981 and 1980, respectively. More efficient use of selling space, increased advertising, new products and services, and traffic-building competitive pricing of selected items, especially milk, beer, cigarettes and soft drinks, contributed to the gains. Sales increases in 1982 and 1981 were affected by a slowing of the inflation rate in 7-Eleven's product mix, excluding gasoline, to 5% in 1982 and 8% in 1981 from 10% in 1980.

Self-serve gasoline, the largest single product category in the 7-Eleven sales mix, was 25.3% of total convenience store sales in 1982 and 1981, up over the 23.0% reported in 1980.

	1982	% Gain	1981	% Gain	1980	% Gain
Gasoline Sales (Millions)	\$1,341.5	12.2	\$1,195.4	30.9	\$912.9	60.4
Gallons (Millions)	1,156.1	20.9	956.0	20.6	792.9	17.4
Number of Stores	2,827	12.3	2,517	12.1	2,246	6.6

Sales increases in 1982 were due to increased gallonage despite lower retail prices. In 1981, gallonage accounted for most of the sales gain as retail prices increased at a slower rate than in the prior year due to ample supplies nationwide. Escalation of retail prices was the main reason for the sales gain in 1980.

The Dairies Group accounted for 5% of the Company's sales in 1982, 7% in 1981 and 8% in 1980. Although sales to outside customers declined 3.6% due to the disposition of three small processing operations, gains in intracompany sales caused total sales to increase 3.2%. The total amount of the increase represents real growth since the selling prices for dairy products remained relatively unchanged because disruptive industry conditions that began in 1981 still existed. Increased volume of ice cream and related novelty products, the addition of new products and greater emphasis on outside customers, including the institutional food service market, also

contributed to the gains. In 1981, sales were up only slightly due to increased competition in the marketplace and a reduction in government-sponsored school lunch and other social feeding programs. The 1980 sales gain, which was in excess of the rate of inflation, resulted partly from a continuation of the overall improvement in market conditions which began in 1979 after the severe competitive environment of 1978.

The Special Operations Group, including the Chief Auto Parts Division acquired at the end of 1978, represented 2% of total sales in each of the three years.

In December 1981, the Company formed the Gasoline Supply Division whose primary purpose is to purchase and distribute gasoline to 7-Eleven retail operations at the lowest available cost. The Division is providing 60% of 7-Eleven's gasoline requirements nationwide. In addition, it has allowed the Company to expand its wholesale gasoline business which made a significant contribution to 1982 sales and earnings. Wholesale gasoline margins, which are even lower than retail gasoline margins, have lowered the Company's total gross margins.

Other income (interest income, area license royalties, equity in earnings of affiliates and net gain on sale of assets no longer of use to the Company) is included in total revenues. Interest income and area license royalties represented more than 75% of other income in each year.

Gross Profits and Margins

Gross profits (sales less cost of goods sold, including buying and occupancy expenses) were up 13.5%, 15.9% and 15.5% compared with sales gains of 18.7%, 19.6% and 23.4% in 1982, 1981 and 1980, respectively. For the same periods, gross margins (gross profits divided by sales) were:

Gross Margins (Percentage)			
QUARTERS	1982	1981	1980
First	19.34	20.86	21.81
Second	21.46	22.93	23.04
Third	21.84	22.48	23.38
Fourth	20.41	20.65	21.49
YEAR	20.82	21.76	22.46

Gross margins for the Company were lower in 1982, mainly due to decreases in retail gasoline margins and the addition of low margin wholesale gasoline sales resulting from the formation of the Gasoline Supply Division in December 1981. Increases in gasoline sales as a percentage of total 7-Eleven sales and lower gasoline retail margins caused the Company's gross margins to decline in both 1981 and 1980.

Gross margins for 7-Eleven, excluding gasoline, decreased slightly in 1982, primarily as a result of competitive pricing of selected items. Lower gross margins for gasoline caused declines in both 7-Eleven and overall Company gross margins. In addition, margins have been adversely affected by inflation-fueled increases in buying and occupancy expenses, including store rents and maintenance, utilities and property taxes. 7-Eleven gross margins, excluding gasoline, were up in 1981 and 1980, largely due to increased sales of high-margin products such as fountain soft drinks, non-foods, candy and snack items.

In 1982, Dairies Group gross margins improved substantially due to increased emphasis on premium product lines such as juices and juice-based drinks, ice cream and related novelties. Highly competitive market conditions in 1981 made production cost increases difficult to pass through and produced slightly lower gross margins. In 1980, generally favorable industry conditions enabled the Dairies Group to maintain its margins through aggressive merchandising and promotion, introduction of new products and processing efficiencies attributable to sustained plant modernization and automation programs.

Selling, General and Administrative Expenses

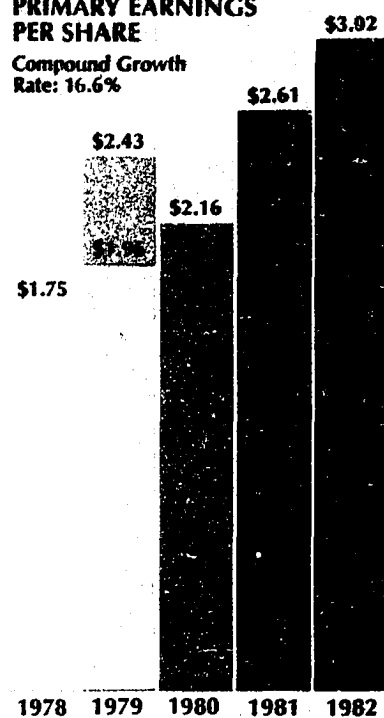
In 1982, 1981 and 1980, selling, general and administrative expenses were up 11.9%, 16.4% and 15.4%, compared with gross profit dollar gains of 13.5%, 15.9% and 15.5%, respectively. For the same periods, the ratios of these expenses to sales were:

Selling, General and Administrative Expenses (Percentage)			
QUARTERS	1982	1981	1980
First	17.78	19.43	20.09
Second	17.24	18.46	18.53
Third	17.55	18.49	19.06
Fourth	17.02	17.58	18.33
YEAR	17.39	18.44	18.95

The growth of retail and wholesale gasoline sales, which have lower associated selling expenses, caused selling, general and administrative expenses to drop 1.05 to 17.39% in 1982. In 1981, sales increases and cost reduction measures caused the ratio of selling, general and administrative expenses to decrease .51 to 18.44%. The ratio of selling, general and administrative expenses to sales declined 1.32 to 18.95% in 1980 as a result of sales gains and programs instituted in late 1979 to control expenses.

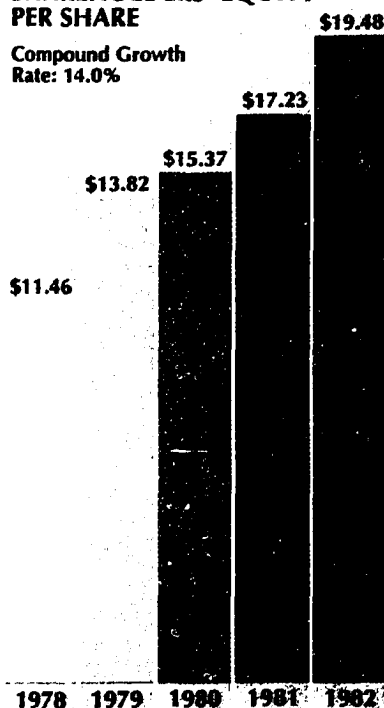
PRIMARY EARNINGS PER SHARE

Compound Growth Rate: 16.6%



SHAREHOLDERS' EQUITY PER SHARE

Compound Growth Rate: 14.0%



Interest and Imputed Interest Expense

Interest expense, which rose 11.6% in 1982 principally due to the sale of commercial paper, was up 2.9% in 1981 after increasing 27.2% in 1980, primarily because of unsecured debt financings in 1979. Imputed interest expense on capital lease obligations declined 7.4% in 1982, following gains of 2.5% in 1981 and 4.7% in 1980, reflecting a trend toward lower utilization of capitalized leases.

Income Taxes

The effective federal and state income tax rates of 42.8% in 1982, 43.6% in 1981 and 41.7% in 1980 were below the 46% federal statutory tax rate, primarily because of investment tax credits.

Net Earnings

(Thousands)

QUARTERS	1982	% Gain	1981	% Gain	1980	% Gain*
First	\$ 9,515	28.4	\$ 7,408	24.1	\$ 5,971	(5.4)
Second	35,169	12.5	31,255	28.9	24,247	5.3
Third	36,833	16.6	31,581	18.0	26,770	11.3
Fourth	26,534	17.3	22,616	15.9	19,518	50.3
TOTAL	\$108,051	16.4	\$92,860	21.4	\$76,506	15.2

*Pro forma, 1979

In 1982, earnings increased due to gains from the new Gasoline Supply Division and increases in operating profits in the Stores and Special Operations Groups. Earnings gains for 1982 were decreased because of lower interest income resulting from reduced levels of invested cash at lower average yields than in 1981. Lower 7-Eleven gross margins and declining gasoline margins also affected earnings. The Champaign Distribution Center, Tidel Systems and Chief Auto Parts significantly improved their performance in 1982 over the losses experienced in 1981 and 1980. The increase in 1981 earnings was due to a sales gain, an improvement in gross margins on convenience store merchandise, a decline in the ratio of selling, general and administrative expenses to sales and a significant increase in interest income from short-term investments. In 1980, total sales were strong, and although dairy and 7-Eleven margins, excluding gasoline, remained firm, the rate of increase in buying and occupancy expenses, as well as selling, general and administrative costs, held down the earnings gain.

Earnings Per Share

Primary

QUARTERS	1982	% Gain	1981	% Gain	1980	% Gain*
First	\$.27	28.6	\$.21	23.5	\$.17	(15.0)
Second	.99	12.5	.88	29.4	.68	(4.2)
Third	1.03	15.7	.89	17.1	.76	5.6
Fourth	.73	15.9	.63	14.5	.55	52.8
TOTAL	\$3.02	15.7	\$2.61	20.8	\$2.16	8.5

*Pro forma, 1979

Primary earnings were computed on the basis of 35,772,689, 35,513,515 and 35,460,071 average shares for the years 1982, 1981 and 1980, respectively.

Diluted

QUARTERS	1982	% Gain	1981	% Gain	1980	% Gain*
First	\$.26	23.8	\$.21	23.5	\$.17	(10.5)
Second	.96	12.9	.85	28.8	.66	(4.3)
Third	1.00	16.3	.86	17.8	.73	1.4
Fourth	.72	16.1	.62	14.8	.54	54.3
TOTAL	\$2.94	15.7	\$2.54	21.0	\$2.10	8.8

*Pro forma, 1979

Diluted earnings were computed on the basis of 36,970,068, 36,899,129 and 36,875,263 average shares for the years 1982, 1981 and 1980, respectively.

Liquidity and Capital Resources:

A company's liquidity is determined by its ability to generate adequate amounts of cash to meet both its short and long-term needs through internal and/or external sources. Due to the nature of Southland's business, approximately 80% of total sales are cash transactions, and receivables are rapidly converted into cash. In addition, the value of a substantial percentage of the inventories, determined by the LIFO method, is \$64.0 million less than the FIFO cost of such inventories.

In December 1982, Southland entered into a \$150 million, three-year revolving credit agreement. The agreement converts into a four-year term loan after the revolving period. The revolver, which also acts as the backup line for Southland's commercial paper, along with Southland's internally generated funds from operations, provides sufficient resources to meet its liquidity needs.

The following financial indicators also should be considered in evaluating Southland's liquidity.

	1982	1981	1980
Working Capital (Millions)	\$85.9	\$135.6	\$175.0
Current Ratio	1.16	1.27	1.44
Inventory Turnover	13.3	12.4	11.6

The declines in working capital and in the current ratio reflect a deployment of surplus cash into fixed assets and the decision to fund cash needs by use of commercial paper and the revolving credit agreement rather than by a larger debt or equity offering. This funding decision, which provides ready access to cash, minimizes interest costs but keeps cash and short-term investment balances, a substantial portion of working capital in 1981 and 1980, at relatively low levels.

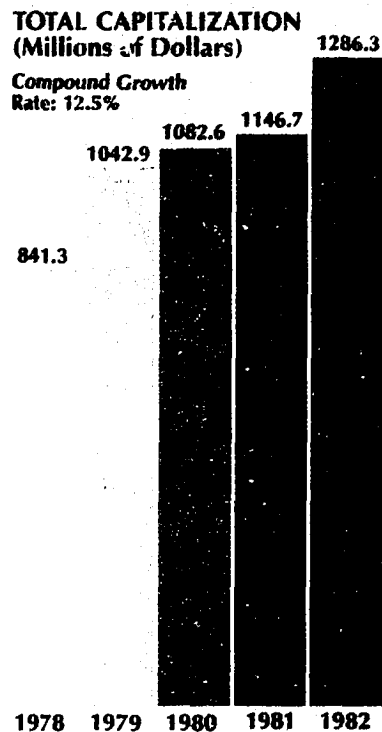
Capital spending plans include major investments to strengthen the Company's leadership position in the convenience store business and expand other operations. Investments in property, plant and equipment for the three years were:

(Millions)	1982	%	1981	%	1980	%
Stores Group	\$184.7	55	\$150.3	67	\$ 92.1	80
Dairies Group	16.0	5	14.2	6	9.7	9
Special Operations Group	11.1	3	11.5	5	10.7	9
Gasoline Supply Group	15.7	5	14.7	7	—	—
Corporate	109.8	32	33.2	15	2.0	2
TOTAL	\$337.3	100	\$223.9	100	\$114.5	100

Capital spending in 1982 accelerated as the depressed economy provided additional opportunities to purchase prime corner sites for 7-Eleven stores. Additional office facilities as well as land adjacent to the corporate office were also purchased. In 1981, Southland increased its capital expenditures, primarily for 7-Eleven stores and sites, remodeling of existing facilities, and for additional land and office space adjacent to the corporate office complex. In 1980, Southland reduced capital expenditures as a response to unfavorable economic conditions, high interest rates and the establishment of more exacting 7-Eleven store site selection criteria designed to improve return on investment. Increased cash flow from operations helped finance each year's capital expenditures. Additional needs were provided by an offering of 2 million shares of common stock and \$75 million of 9½% unsecured debentures in August 1979.

During 1983 and 1984, Southland expects capital expenditures to be near 1982 levels and anticipates additional financings. The Company, however, closely monitors and controls the level of its capital outlays and has the flexibility to adjust these expenditures as it did in 1980.

Southland utilizes both capital and operating leases and considers them to be valuable assets and essential to its operations. Capital lease obligations have fallen during the period, although operating lease rentals have increased substantially. Southland plans to continue using both methods of leasing.



During 1982, \$10.9 million of the 5% convertible debentures were converted to common stock. Also during the year, approximately \$5.9 million of Southland's outstanding debentures were repurchased on the open market for use in fulfilling future sinking fund requirements. The effect on the Company's capital structure of record earnings, dividends paid, capital leases, debt financings and the above transactions during the period was:

(Millions)	1982	%	1981	%	1980	%
Long-Term Debt	\$ 386.3	30.0	\$ 320.9	28.0	\$ 312.5	28.9
Capital Lease Obligations	196.7	15.3	211.6	18.6	224.8	20.8
Shareholders' Equity	703.3	54.7	612.2	53.4	545.3	50.3
TOTAL	\$1,286.3	100.0	\$1,146.7	100.0	\$1,082.6	100.0

In summary, Southland's financial condition has supported its growth through an advantageous combination of debt, equity and lease financing. The ratio of shareholders' equity to total capitalization has improved over the period, and the ratio of long-term debt to total capitalization is an indicator of the Company's ability to secure its debt requirements at competitive rates.

The Company's public unsecured sinking fund debentures are rated "A2" by Moody's, "A" by Standard and Poor's and "6" by Duff and Phelps. Its commercial paper was recently upgraded to "P-1" by Moody's and is rated "A-1" by Standard and Poor's and "1" by Duff and Phelps.

EFFECTS OF INFLATION

Refer to pages 29 and 30 — Supplementary Inflation Data (Unaudited).

OTHER FINANCIAL DATA

Dividends

The Company not only has followed a policy of reinvesting a major portion of net earnings to meet its growth objectives, but also has declared cash dividends each of the past 26 years and raised the annual rate 11 times in the past 12 years.

Dividends Paid Per Common Share

CASH:

QUARTER	1982	1981	1980
First	\$.19	\$.16	\$.14
Second	.19	.18	.16
Third	.19	.18	.16
Fourth	.20	.18	.16
TOTAL	\$.77	\$.70	\$.62

STOCK:	—	—	3%
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The annual dividend rate for 1982 rose 10.5% to 77 cents following increases of 12.9% to 70 cents in 1981 and 14.8% to 62 cents in 1980. In December 1982, the Board of Directors increased the dividend 8.6% from 77 cents to 84 cents, with the new rate effective the first quarterly payment in March 1983.

Profit Sharing and Pension Plans

The Company contributes to The Southland Corporation Employees' Savings and Profit Sharing Plan, established in 1949, and to various union pension plans. Eligible employees have the option of joining Southland's voluntary contributory plan. Company contributions to this fully funded, trustee-administered plan are based on earnings before federal income taxes. All required contributions to such plans have been made.

Employee Stock Ownership Plan

Effective January 1, 1983, the Company adopted the Southland Employee Stock Ownership Plan (the ESOP). Contributions to the ESOP result in a federal tax credit. They can be made by the Company in either cash or shares of common stock and are limited to a percentage (for 1983, .5%) of the aggregate compensation of the participants. Contributions are allocated to all participants equally.

Market Data

Southland's common stock is traded under the symbol SLC on the New York, Pacific, Boston and Philadelphia Stock Exchanges. The price/earnings ratios are based upon primary earnings per share for the four preceding quarters, using pro forma earnings for 1979 only.

QUARTERS	Price Range		Price/Earnings Ratio	
	High	Low	High	Low
1982				
First	21	17	8.0	6.5
Second	22 3/4	19 3/4	8.5	7.3
Third	26 3/4	20 3/4	9.5	7.3
Fourth	31 1/2	24 3/4	10.8	8.4
1981				
First	18 3/4	13 3/4	8.7	6.3
Second	18 1/4	16 1/4	8.3	7.3
Third	20 3/4	16 1/2	8.6	6.9
Fourth	23 3/4	19	9.2	7.5
1980				
First	19 1/2	11 1/4	9.8	6.0
Second	15 3/4	11 1/4	7.7	5.8
Third	16 3/4	12 3/4	8.5	6.5
Fourth	15 3/4	12 3/4	8.1	6.4

SUPPLEMENTARY INFLATION DATA (UNAUDITED):

Introduction

Under generally accepted accounting principles, financial statements traditionally have been prepared on the basis of historical cost. Over time, inflation distorts this accounting measurement. Statement of Financial Accounting Standards No. 33 (SFAS No. 33) requires the presentation of supplementary financial information which attempts to show the impact of inflation. Because this information is experimental in nature, two different methods of presentation are required.

Methods of Measuring the Effects of Inflation

The first method provides information with respect to general inflation (constant dollar) by adjusting historical cost into dollars having the same purchasing power. For example, if the inflation rate is 10% from one year to the next, then 10% more dollars are needed in the second year to maintain the same purchasing power. SFAS No. 33 requires adjustment of certain historical financial data to constant dollars by using the Consumer Price Index for all Urban Consumers (CPI-U). Therefore, the historical cost of property, plant and equipment and of capital leases and related depreciation and amortization expense are adjusted using the CPI-U. Also, inventories and the related effect of inventories on cost of goods sold are similarly adjusted.

The second method provides information with respect to changes in specific prices (current cost) by adjusting historical cost to the cost which is currently required to purchase inventories and property, plant and equipment.

Over time, current cost increases at a rate different from the CPI-U. Current cost of property, plant and equipment and of capital leases and related depreciation and amortization expense is determined by application of appropriate published and internally developed indexes. The last-in, first-out (LIFO) method is used to determine the cost of the majority of inventories. Because of the rapid turnover of inventories and the use of LIFO, the cost of goods sold as shown in the historical cost financial statements approximates current cost. Current cost of inventories was estimated using first-in, first-out valuations adjusted for price changes through the end of the year.

Management's Comments

The following schedules compare financial data reported on a historical cost basis with data adjusted both for general inflation and for current cost.

Revenues (in million of dollars) for 1982 were \$6,782.4 and for 1978, expressed in average 1982 dollars, were \$4,571.7, resulting in an average annual compound real sales growth rate from 1978 to 1982 of 10.8%.

Net earnings determined under the constant dollar and current cost methods are lower than earnings determined under the historical cost method. This decline results principally from the higher depreciation and amortization expense arising from significant inflationary increases in the cost of property, plant and equipment and of capital leases. The impact of inflation on inventories is not significant since reported earnings are based on LIFO, which approximates the results obtained under the constant dollar and current cost methods.

Present tax laws do not allow deductions for depreciation adjusted for the effect of inflation. Therefore, the Company's tax rate based on data adjusted for the impact of inflation is in excess of the statutory rate. As shown in the following statement of earnings, the effective tax rate rises from 42.8% based on historical cost to 55.6% and 76.3% based on the general inflation and current cost methods.

The reduction in net earnings, discussed above, is partially offset by the unrealized gain from the decline in purchasing power of net amounts owed (monetary liabilities in excess of monetary assets). Since the monetary liabilities at year-end were larger than the monetary assets, a gain is shown. This gain represents the change in the amount of purchasing power required at year-end to pay these net liabilities compared to the higher amount that would have been required to pay them at the end of the preceding year.

Current cost net earnings for years prior to 1982 reflect refinements made during 1982 in the calculation of the current cost of certain elements of property, plant and equipment and the restatement to reflect the retroactive application of SFAS No. 52.

Selected Current Costs

The current costs of inventories and property, plant and equipment and capital leases, net of accumulated depreciation and amortization at December 31, 1982, and corresponding historical cost amounts, were as follows (dollars in millions):

	Historical cost	Current cost
Inventories	\$268.1	\$ 331.7
Property, plant and equipment, including capital leases — net	1,159.3	1,869.5

SUPPLEMENTARY INFORMATION — THE IMPACT OF GENERAL INFLATION and specific price changes on selected financial data (Dollars in millions)

	As reported in financial statements	Year ended December 31, 1982	
		Adjusted for general inflation (constant dollar)	Adjusted for current cost
Revenues	\$6,782.4	\$6,782.4	\$6,782.4
Cost of sales and expenses:			
Cost of goods sold, exclusive of depreciation and amortization	5,253.1	5,254.3	5,253.1
Depreciation and amortization	121.7	164.1	204.7
Interest expense, including imputed interest expense on capital lease obligations	48.7	48.7	48.7
Other operating expenses	1,170.1	1,170.1	1,170.1
	6,593.6	6,637.2	6,676.6
Earnings before income taxes	188.8	145.2	105.8
Income taxes	80.7	80.7	80.7
Net earnings	\$ 108.1	\$ 64.5	\$ 25.1
Effective tax rate	42.8%	55.6%	76.3%
Unrealized gain from decline in purchasing power of net amounts owed	—	\$ 29.6	\$ 29.6
Increase in current cost of inventories, property, plant and equipment, and capital leases held during the year	—	—	128.2
Effect of increase in general inflation	—	—	77.0
Excess of increase in current cost over increase in general inflation	—	—	51.2

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES (IN AVERAGE 1982 DOLLARS) (Dollars in millions, except per share data)

	Year ended December 31				
	1982	1981	1980	1979	1978
Revenues	\$6,782.4	\$6,085.7	\$5,602.3	\$5,154.4	\$4,571.7
Historical cost information adjusted for general inflation:					
Earnings before cumulative effect in 1979 of accounting change for investment tax credits	64.5	49.9	45.8	55.3	—
Net earnings	64.5	49.9	45.8	76.1	—
Primary earnings per share:					
Before cumulative effect of accounting change	1.80	1.41	1.29	1.65	—
Net earnings	1.80	1.41	1.29	2.28	—
Net assets at year-end	1,117.8	1,022.9	1,044.9	988.3	—
Current cost information:					
Earnings before cumulative effect in 1979 of accounting change for investment tax credits	25.1	24.2	26.8	33.0	—
Net earnings	25.1	24.2	26.8	53.8	—
Primary earnings per share:					
Before cumulative effect of accounting change	.70	.68	.76	.99	—
Net earnings	.70	.68	.76	1.61	—
Net assets at year-end	1,432.5	1,319.6	1,272.9	1,175.7	—
Excess of increase (decrease) in current cost over increase in general inflation	51.2	75.5	23.5	43.9	—
Unrealized gain from decline in purchasing power of net amounts owed	29.6	63.9	95.3	106.0	—
Cash dividends per common share	.77	.74	.71	.69	.63
Market price per common share at year-end	25 ⁷ / ₈	21 ⁷ / ₈	15 ¹ / ₈	23 ¹ / ₄	24 ¹ / ₈
Average CPI-U	289.1	272.4	246.8	217.4	195.4

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of The Southland Corporation and subsidiaries, as well as other financial information contained in this report, were prepared by management, which is responsible for their integrity and objectivity.

The Company's financial position and results of operations are presented in conformity with generally accepted accounting principles and, where appropriate, reflect estimates based on judgments of management. The Company has designed and implemented accounting and reporting systems and controls to provide reasonable assurance that transactions are accurately reflected on the books and records, assets are protected, established policies and procedures are followed, and the Company's financial position and results of operations are presented fairly. Accounting and reporting controls are monitored through an extensive program of internal audits by a professional staff of Company auditors which coordinates its activities with the Company's independent certified public accountants.

Touche Ross & Co. is engaged to examine the consolidated financial statements and issue their report thereon. Their examination is conducted in accordance with generally accepted auditing standards, including a review of internal controls and such tests of the accounting records as they consider necessary.

The Board of Directors, assisted by its Audit Committee of four non-employee directors, is responsible for assuring that management fulfills its responsibilities in the preparation of the financial statements and for recommending to shareholders the engagement of the independent certified public accountants, with whom the Committee reviews the scope of the audit and the accounting principles to be applied in financial reporting. The Committee meets as necessary, but at least three times a year. Touche Ross & Co. and the Company's internal auditors have direct access to the Committee — with or without the presence of management — to discuss any appropriate matter.



Clark J. Matthews, II
Executive Vice President
and Chief Financial Officer

TOUCHE ROSS & CO.
2001 Bryan Tower, Suite 2400
Dallas, Texas 75201

Board of Directors and Shareholders
The Southland Corporation
Dallas, Texas

We have examined the consolidated balance sheets of The Southland Corporation and subsidiaries as of December 31, 1982 and 1981, and the related consolidated statements of earnings, shareholders' equity, and changes in financial position for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The Southland Corporation and subsidiaries at December 31, 1982 and 1981, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in accounting for the translation of foreign currency financial statements, described in Note 2 to the consolidated financial statements.



Certified Public Accountants

February 14, 1983

CONSOLIDATED BALANCE SHEETS

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

	December 31 1982	December 31 1981
(Dollars in thousands)		
ASSETS		
Current Assets:		
Cash and short-term investments	\$ 34,685	\$ 141,770
Accounts and notes receivable	200,185	162,449
Inventories	268,101	236,514
Deposits and prepaid expenses	36,908	32,862
Investment in properties	76,800	69,600
Total Current Assets	616,679	643,195
Investments in Affiliates	31,359	32,158
Property, Plant and Equipment	990,925	774,652
Capital Leases	168,412	189,213
Other Assets	35,209	32,953
	\$1,842,584	\$1,672,171

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:		
Commercial paper	\$ 11,696	\$ —
Accounts payable and accrued expenses	455,569	463,920
Income taxes	35,690	21,094
Long-term debt due within one year	12,052	6,147
Capital lease obligations due within one year	15,805	16,408
Total Current Liabilities	530,812	507,569
Deferred Taxes	25,444	17,878
Long-Term Debt	386,304	320,918
Capital Lease Obligations	196,676	213,585
Commitments for Operating Leases		
Shareholders' Equity:		
Common stock, \$.01 par value, authorized 40,000,000 shares, issued and outstanding 24,072,439 and 23,683,182 shares before giving effect to the January 31, 1983, stock split	241	237
Additional capital	347,906	335,294
Retained earnings	355,201	276,690
	703,348	612,221
	\$1,842,584	\$1,672,171

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

	Year ended December 31		
	(Dollars in thousands, except per share data)		
	1982	1981	1980
Revenues:			
Net sales	\$6,756,933	\$5,693,636	\$4,758,656
Other income	25,450	40,524	23,949
	6,782,383	5,734,160	4,782,605
Cost of Sales and Expenses:			
Cost of goods sold, including buying and occupancy expenses	5,350,453	4,454,774	3,689,679
Selling, general and administrative expenses	1,174,886	1,050,073	901,888
Interest expense	27,390	24,539	23,841
Imputed interest expense on capital lease obligations	21,345	23,048	22,496
Contributions to Employees' Savings and Profit Sharing Plan	19,568	16,965	13,558
	6,593,642	5,569,399	4,651,462
Earnings Before Income Taxes	188,741	164,761	131,143
Income Taxes	80,690	71,901	54,637
Net Earnings	\$ 108,051	\$ 92,860	\$ 76,506
Net Earnings Per Share , after adjustment for the January 31, 1983, stock split:			
Primary	\$3.02	\$2.61	\$2.16
Fully diluted	\$2.94	\$2.54	\$2.10

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

	1982	Year ended December 31	
		(Dollars in thousands)	
		1981	1980
Internally Generated Funds:			
Net earnings	\$ 108,051	\$ 92,860	\$ 76,506
Expenses not requiring the use of cash or short-term investments:			
Depreciation and amortization	102,964	79,944	67,338
Amortization of capital leases	18,737	20,887	22,509
Deferred income taxes	6,341	13,518	5,910
Equity in (earnings) loss of affiliates	(603)	82	(2,489)
	235,490	207,291	169,774
Increase (decrease) in accounts payable and accrued expenses	(8,351)	109,191	64,616
Increase in deposits and prepaid expenses	(2,821)	(4,123)	(1,859)
Increase in inventories	(31,587)	(23,069)	(12,651)
Increase in accounts and notes receivable	(37,736)	(62,621)	(11,874)
Increase (decrease) in income taxes	14,596	(1,274)	15,742
Funds provided from operations	169,591	225,395	223,748
Funds used to pay dividends	(27,657)	(24,859)	(21,585)
Net change in accumulated foreign currency translation adjustment	(1,633)	(2,046)	123
Internally Generated Funds Available for Investment	140,301	198,490	202,286
Capital Investment Activities:			
Acquisitions:			
Property, plant and equipment	(321,506)	(206,864)	(114,510)
Net noncurrent assets or businesses purchased	(15,782)	(17,027)	—
Capital leases	(3,861)	(9,446)	(24,011)
Investment in properties	(7,200)	8,300	(10,400)
Investments in affiliates	1,402	1,691	(2,595)
Other	(1,802)	(1,548)	344
	(348,749)	(224,894)	(151,172)
Retirements:			
Property, plant and equipment	17,619	15,899	30,594
Capital leases	5,925	6,752	2,866
	23,544	22,651	33,460
Net Funds Used by Capital Investment Activities	(325,205)	(202,243)	(117,712)
Financing Activities:			
Financing acquired:			
Commercial paper	85,696	—	—
Long-term debt	23,689	19,697	2,541
Capital lease obligations	3,861	9,446	24,222
Common stock	12,366	984	517
	125,612	30,127	27,280
Financing discharged:			
Long-term debt	(26,420)	(9,427)	(16,664)
Capital lease obligations	(21,373)	(24,779)	(25,515)
	(47,793)	(34,206)	(42,179)
Net Funds Provided by (Used in) Financing Activities	77,819	(4,079)	(14,899)
Increase (Decrease) in Cash and Short-Term Investments	\$(107,085)	\$ (7,832)	\$ 69,675

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

	1982	Year ended December 31	
		(Dollars in thousands)	
	1981	1980	
Common Stock:			
Balance, beginning of year	\$ 237	\$ 236	\$ 229
3% stock dividend	—	—	7
Conversion of debt	3	*	—
Stock options and incentives	1	1	*
Balance, end of year	241	237	236
Additional Capital:			
Balance, beginning of year	335,294	334,311	319,067
3% stock dividend	—	—	14,727
Conversion of debt	10,856	73	—
Stock options and incentives	1,756	910	517
Balance, end of year	347,906	335,294	334,311
Retained Earnings:			
Balance, beginning of year:			
As previously reported			170,425
Effect of retroactive change in foreign currency translation			(670)
As restated	276,690	210,735	169,755
Net earnings for the year	108,051	92,860	76,506
Cash dividends	(27,657)	(24,859)	(21,511)
3% stock dividend	—	—	(14,734)
Stock options	(250)	—	—
Cash paid in lieu of fractional shares on stock dividend	—	—	(74)
Foreign currency translation adjustment	(1,633)	(2,046)	793
Balance, end of year	355,201	276,690	210,735
Total Shareholders' Equity	\$703,348	\$612,221	\$545,282

*Amount rounds to zero.

See notes to consolidated financial statements.

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

1. Accounting Policies:

Principles of Consolidation

The financial statements include the accounts of domestic and Canadian subsidiaries, all of which are wholly owned. Intercompany transactions are eliminated.

Investments in affiliates are accounted for by the equity method. Accordingly, such investments are shown at cost to the Company plus equity in undistributed earnings since acquisition. Investments in affiliates consist primarily of amounts invested in a wholly owned United Kingdom subsidiary engaged in the operation of retail stores. Equity in earnings of affiliates is included in other income and, as to foreign affiliates, is recorded net of amortization of the intangibles which arose on the acquisition (straight-line over 40 years), foreign income taxes, and a provision for United States federal income taxes. At December 31, 1982, the Company's equity in undistributed earnings of affiliates since date of investment was \$7,227,000, and its investments in affiliates exceeded its equity in net assets by \$17,971,000.

Basis of Presentation

The classifications in use for the current year have been applied to the statements for 1981 and 1980. The principal change is the presentation of the consolidated statements of changes in financial position.

Effective January 31, 1983, all shares outstanding were split on a three-for-two basis. The consolidated balance sheets do not reflect the stock split; however, all references to per share amounts, stock options, conversion ratios and shares reserved do reflect the stock split.

Revenues

Net sales are comprised of sales of products and merchandise, including sales by stores operated by franchisees of \$1,704,420,000, \$1,523,494,000 and \$1,331,925,000 for the years ended December 31, 1982, 1981 and 1980. There is no significant difference in the profitability of company-operated and franchisee-operated stores.

Sales by stores operated under domestic and foreign area license agreements are not included. All fees or royalties arising from such agreements are included in other income. Initial fees, which have been immaterial, are recognized when the services required under the agreements are performed.

Other income is primarily comprised of interest on cash investments and royalties from area licenses.

Exchanges

Gasoline exchange receivables and payables are included in trade accounts receivable and payable and result from exchange contracts in process. Exchange receivables are stated at the lower of the average cost of purchases or net realizable value. Exchange payables are stated at the higher of the average cost of purchases or prevailing market prices.

Inventories

Inventories are stated at the lower of cost or market, which, as to merchandise in stores, is determined by the retail inventory method. Cost is determined using the last-in, first-out (LIFO) method for substantially all inventories of the Stores Group and Gasoline Supply and the first-in, first-out (FIFO) method for all other inventories.

Cost of inventories is primarily the purchase price of merchandise inventories.

Investment in Properties

Investment in properties includes land, buildings and equipment either to be sold for cash and leased back or to be mortgaged, as well as closed stores held for sale. The Company expects that cash will be realized for these properties within a twelve-month period. Working capital is used in the acquisition, construction and carrying of these assets.

Depreciation and Amortization

Depreciation of plant and equipment and amortization of capital leases are based upon the estimated useful lives of these assets using the straight-line method. Amortization of improvements to leased properties is based upon the remaining terms of the leases or the estimated useful lives of such improvements, whichever is shorter.

Income Taxes and Investment Tax Credits

Income taxes is the estimated amount of federal and state income taxes on earnings reported in the consolidated statements of earnings. Deferred taxes and deferred tax benefits are provided for and are a result of timing differences between financial and tax reporting.

Investment tax credits are recorded as a reduction of income taxes in the year the related assets are placed in service.

Leases

Capital leases are recorded at the lower of the discounted present value of future lease payments or the fair value of the property. Provision is made for the present value of estimated losses anticipated to be incurred due to the payment of rentals on closed stores, net of expected sublease rentals.

2. Accounting Change— Foreign Currency Translation:

On January 1, 1982, the Company adopted Statement of Financial Accounting Standards No. 52 (SFAS No. 52), "Foreign Currency Translation," which revises the accounting and reporting requirements for translation of foreign currency financial statements. The principal revision for certain foreign operations is the use of the current exchange rate for certain balance sheet accounts (principally property, plant and equipment) and the average exchange rate for related income statement items (principally depreciation expense) in place of historical exchange rates. The translation adjustments are made directly to shareholders' equity.

The new requirements have resulted in a restatement of the consolidated financial statements for 1981 and 1980 as follows (000's omitted, except per share data):

	Year ended December 31	
	1981	1980
Net earnings, as previously reported	\$94,191	\$76,052
Effect of retroactive change	(1,331)	454
Net earnings, as restated	\$92,860	\$76,506
Effect on net earnings per share:		
Primary	\$ (.04)	\$.02
Fully diluted	\$ (.03)	\$.02

The restatement of December 31, 1981, balances decreased total assets \$5,620,000, deferred taxes \$2,820,000 and retained earnings \$877,000. Accumulated foreign currency translation adjustments at December 31, 1982 and 1981, reduced retained earnings by \$3,556,000 and \$1,923,000.

3. Cash and Short-Term Investments:

Cash and short-term investments include temporary cash investments of \$92,446,000 and \$131,033,000 at December 31, 1982 and 1981, stated at cost, which approximates market.

4. Accounts and Notes Receivable:

	December 31 1982	December 31 1981
(000's omitted)		
Trade accounts and notes receivable	\$157,671	\$127,335
Franchisee accounts receivable	49,353	38,840
	207,024	166,175
Allowance for doubtful accounts	(6,839)	(3,726)
	\$200,185	\$162,449

5. Inventories:

At December 31, 1982 and 1981, inventories stated on the LIFO basis were approximately \$205,628,000 and \$178,379,000, which is less than FIFO cost (which approximates replacement cost) by approximately \$64,045,000 and \$52,587,000.

6. Property, Plant and Equipment:

(000's omitted)	December 31	December 31
	1982	1981
Cost:		
Land	\$ 146,160	\$ 112,416
Buildings and leaseholds	520,833	445,636
Machinery and equipment	539,174	455,211
Vehicles	76,243	66,493
Construction in process	31,598	25,724
Corporate property held for development	80,662	6,537
	1,394,670	1,112,017
Accumulated depreciation and amortization	(403,745)	(337,365)
	\$ 990,925	\$ 774,652

Approximately 14% of the carrying amount of property, plant and equipment at December 31, 1982, was mortgaged. Lenders to certain wholly owned real estate subsidiaries hold pledges of the shares of those subsidiaries as additional collateral.

Interest incurred to finance the construction or development of properties, which has been added to the cost of the related assets, was \$3,075,000 in 1982, \$2,961,000 in 1981 and \$3,539,000 in 1980.

7. Accounts Payable and Accrued Expenses:

(000's omitted)	December 31	December 31
	1982	1981
Trade accounts payable	\$251,885	\$291,934
Accrued payroll	55,890	43,863
Accrued insurance claims	54,030	48,097
Accrued taxes	37,206	32,279
Accrued interest	7,265	7,922
Other accounts payable and accrued expenses	49,293	39,825
	\$455,569	\$463,920

8. Long-Term Debt and Commercial Paper:

Long-term debt consists of the following:

(000's omitted)	December 31, 1982		
	Amount outstanding	Due within one year	Balance included in long-term debt
5¼%-14% real estate, equipment and other notes (mature 1983 to 2011)	\$139,295	\$12,052	\$127,243
5% convertible subordinated debentures due 1987	19,067	—	19,067
8¾% sinking fund debentures due 2002	46,730	—	46,730
9¼% sinking fund debentures due 2003	47,288	—	47,288
9½% sinking fund debentures due 2004	71,976	—	71,976
Commercial paper	74,000	—	74,000
	<u>\$398,356</u>	<u>\$12,052</u>	<u>\$386,304</u>

The 5% convertible debentures may, at the option of the holders, be converted at any time prior to maturity into the Company's common stock. The present conversion ratio is 45.19 shares for each \$1,000 of principal. At December 31, 1982, there were 861,637 shares reserved for the conversion of these debentures.

The 8¾% debentures require annual sinking fund payments beginning February 15, 1983, in the amount of \$2,500,000, which, at the option of the Company, may be increased each year by an additional amount not exceeding \$2,500,000. The Company has satisfied the February 15, 1983, sinking fund payment requirement through purchases on the open market.

The 9¼% debentures require annual sinking fund payments beginning December 15, 1984, in the amount of \$2,500,000, which, at the option of the Company, may be increased each year by an additional amount not exceeding \$2,500,000.

The 9½% debentures require annual sinking fund payments beginning August 15, 1985, in the amount of \$3,750,000, which, at the option of the Company, may be increased each year by an additional amount not exceeding \$5,625,000.

The Company has a revolving credit agreement with a bank group providing for a line of credit of \$150,000,000 through December 1, 1985, with interest rate options

based upon the certificate of deposit loan rate, Eurodollar loan rate (both of which generally are less than the prime interest rate) or the prime rate. The agreement provides for a commitment fee on unadvanced funds of ¼% per annum. No compensating balances are required. The agreement provides for 16 equal quarterly payments of principal plus accrued interest beginning December 31, 1985.

Commercial paper of \$74,000,000 has been classified as long-term debt because the Company intends to maintain at least this amount of commercial paper for a minimum of one year or intends to refinance the debt on a long-term basis and has the availability of such financing because of the existence of the line of credit. The average interest rate on commercial paper outstanding at December 31, 1982, is 9.27%, which is less than the interest rates available at that date under the revolving credit agreement.

As of December 31, 1982, long-term debt matures as follows (000's omitted):

1983	\$ 12,052
1984	9,131
1985	18,404
1986	35,318
1987	55,497
Thereafter	267,954
	<u>\$398,356</u>

9. Stock Options and Key Employees Incentive Plan:

Options under a nonqualified stock option plan are granted at the fair market value of the shares on the date of grant and are exercisable ratably over a ten-year period. The proceeds from shares issued and any applicable tax benefits related to these options are credited to common stock and additional capital. No charges or credits are made to income with regard to options granted under this plan.

At December 31, 1982, there were options for 353,691 shares outstanding at \$12.73 to \$18.25 per share, of which 151,065 were exercisable. During the year ended December 31, 1982, 40,695 options were exercised at \$12.73 to \$18.25 per share. At December 31, 1982, 414,652 shares were reserved for future issuance under this plan.

At December 31, 1982, 206,836 shares were reserved for issuance pursuant to a key employees incentive plan, of which approximately 30,000 shares will be issued in 1983. In 1982, 1981 and 1980, 73,390, 37,240 and 35,698 shares were issued under this plan.

10. Employees' Savings and Profit Sharing Plan:

Effective January 1, 1949, the Company adopted The Southland Corporation Employees' Savings and Profit Sharing Plan (Profit Sharing) for the purpose of providing retirement benefits for eligible employees.

Contributions to the plan are made by both the participants and the Company. The Company contributes approximately 10% of its net earnings before contribution to the plan and federal income taxes. The Company contribution is allocated to the participants on the basis of their contribution, years of participation and age.

11. Employee Stock Ownership Plan:

Effective January 1, 1983, the Company adopted the Southland Employee Stock Ownership Plan (the ESOP). Contributions to the ESOP can be made by the Company in either cash or shares of common stock and are limited to a percentage (for 1983, .5%) of the aggregate compensation of the participants. The Company contribution is allocated to the participants on an equal basis. The amount contributed by the Company will result in a federal tax credit of equal amount.

12. Leases:

Certain of the property and equipment used in the Company's business is leased. Generally, real estate leases are for primary terms of from 14 to 20 years with options to renew for additional periods, and equipment leases are for terms of from 5 to 10 years. The leases do not contain restrictions which have a material effect on the Company's operations.

The composition of capital leases reflected as assets in the consolidated balance sheets is as follows:

(000's omitted)	December 31	
	1982	1981
Buildings	\$269,359	\$275,305
Equipment	72,606	85,844
	341,965	361,149
Accumulated amortization	(173,553)	(171,936)
	\$168,412	\$189,213

The present value of future minimum lease payments for capital lease obligations is reflected in the consolidated balance sheets as current and non-current capital lease obligations. The amount representing imputed interest necessary to reduce net minimum lease payments to present value has been calculated generally at the Company's incremental borrowing rate at the inception of each lease.

Future minimum lease payments for years ending December 31 are as follows:

(000's omitted)	Capital leases	Operating leases
1983	\$ 36,546	\$ 62,413
1984	34,514	58,406
1985	32,540	55,995
1986	29,977	53,144
1987	28,144	50,235
1988 and thereafter	253,296	465,515
	415,017	\$745,708
Estimated executory costs	(8,613)	
Amount representing imputed interest	(193,923)	
Present value of future minimum lease payments	\$212,481	

Rent expense on operating leases in the years ended December 31, 1982, 1981 and 1980, totaled \$67,057,000, \$57,252,000 and \$47,034,000.

Leases With Profit Sharing

During 1982, 1981 and 1980, Profit Sharing purchased 130, 108 and 73 7-Eleven or Chief Auto Parts stores from the Company for \$40,660,000, \$28,268,000 and \$18,769,000, which includes the Company's direct and indirect costs. The stores were simultaneously leased to the Company at annual rentals approximating market rates. At December 31, 1982, Profit Sharing owned 931 stores leased to the Company under capital leases (net amortized amount of \$43,553,000) and 460 stores leased to the Company under operating leases.

13. Income Taxes:

Provisions for income taxes for the years ended December 31 are as follows:

(000's omitted)	1982	1981	1980
Currently payable:			
Federal	\$62,696	\$45,531	\$38,907
Canadian	3,220	3,662	2,571
State	8,433	9,190	7,249
	74,349	58,383	48,727
Deferred	6,341	13,518	5,910
	\$80,690	\$71,901	\$54,637

Reconciliations of the Company's effective tax rate and the federal statutory rate for the years ended December 31 are as follows:

	1982	1981	1980
Federal statutory rate	46.0%	46.0%	46.0%
Investment tax credits	(4.7)	(4.5)	(5.4)
State income taxes net of federal income tax benefit	2.4	2.6	2.5
Other	(.9)	(.5)	(1.4)
	42.8%	43.6%	41.7%

The provisions for deferred income taxes for the years ended December 31 are as follows:

(000's omitted)	1982	1981	1980
Use of accelerated depreciation for tax purposes	\$12,488	\$ 8,532	\$5,141
Other	(6,147)	4,986	769
	\$ 6,341	\$13,518	\$5,910

Deferred taxes include deferred federal income taxes of \$27,899,000 and \$18,545,000 at December 31, 1982 and 1981. Net deferred tax benefits of \$7,603,000 and \$4,590,000 at December 31, 1982 and 1981, are included in deposits and prepaid expenses.

14. Earnings Per Share:

Primary net earnings per share are based on the average number of shares outstanding during each year after giving effect to subsequent stock dividends and on January 31, 1983, three-for-two stock split.

Net earnings per share assuming full dilution are based on (a) shares used in computing primary net earnings per share, (b) shares issuable upon conversion of convertible debentures at the stated conversion rates (related interest requirements eliminated), (c) shares issuable on the exercise of stock options after reduction for shares assumed to have been purchased with the proceeds and (d) average shares issuable under the key employees incentive plan.

15. Quarterly Financial Data (Unaudited):

The classification of items in determining gross profit conforms to that used in the consolidated statements of earnings. Net earnings of the quarterly periods for 1981 and 1980 have been restated to reflect the retroactive application of SFAS No. 52. The effect was not material. Summarized quarterly financial data is as follows (000's omitted, except per share data):

	First quarter	Second quarter	Third quarter	Fourth quarter	Year
Net sales:					
1982	\$1,532,306	\$1,725,926	\$1,790,825	\$1,707,876	\$6,756,933
1981	1,226,839	1,438,975	1,515,061	1,512,761	5,693,636
1980	1,013,647	1,201,176	1,297,577	1,246,256	4,758,656
Gross profit:					
1982	296,398	370,331	391,163	348,538	1,406,480
1981	255,957	329,920	340,641	312,344	1,238,862
1980	221,098	276,702	303,386	267,791	1,068,977
Net earnings:					
1982	9,515	35,169	36,833	26,534	108,051
1981	7,408	31,255	31,581	22,616	92,860
1980	5,971	24,247	26,770	19,518	76,506
Primary net earnings per share:					
1982	.27	.99	1.03	.73	3.02
1981	.21	.88	.89	.63	2.61
1980	.17	.68	.76	.55	2.16
Fully diluted net earnings per share:					
1982	.26	.96	1.00	.72	2.94
1981	.21	.85	.86	.62	2.54
1980	.17	.66	.73	.54	2.10

16. Segment Information:

The Stores Group includes all convenience and grocery stores in the United States and Canada, as well as those activities (such as distribution and food preparation) which derive the majority of their revenues and operating profits from support of these stores. The Dairies Group includes milk and ice cream processing and distribution. The Special Operations Group includes the ice, chemical, Tidel and Chief Auto Parts divisions. Gasoline Supply includes gasoline storage facilities and gasoline wholesaling operations. Corporate items reflect income, expenses and assets not allocable to segments.

Intersegment sales are accounted for on a cost-plus-markup basis. Expenses directly identifiable with a segment and certain allocated income and expenses are used to determine operating profit by segment.

Amounts for 1981 and 1980 have been restated to reflect the retroactive application of SFAS No. 52. The effect was not material.

Segment information is as follows (000's omitted):

	1982	1981	1980
Revenues:			
Stores Group	\$5,721,099	\$5,144,087	\$4,307,876
Dairies Group	584,422	568,560	534,699
Special Operations Group	165,154	140,904	122,645
Gasoline Supply	1,259,493	103,754	—
Corporate	9,031	7,725	8,864
	7,739,199	5,965,030	4,974,084
Intersegment revenues:			
Dairies Group	(229,833)	(198,329)	(175,251)
Special Operations Group	(13,745)	(14,069)	(16,228)
Gasoline Supply	(713,238)	(18,472)	—
Consolidated revenues	\$6,782,383	\$5,734,160	\$4,782,605
Operating profits:			
Stores Group	\$ 224,916	\$ 219,887	\$ 174,399
Dairies Group	12,457	13,333	15,325
Special Operations Group	(3,137)	(9,503)	(3,053)
Gasoline Supply	23,009	2,994	—
Consolidated operating profits	257,245	226,711	186,671
Interest expense	(48,735)	(47,587)	(46,337)
Corporate expense — net	(19,769)	(14,363)	(9,191)
Consolidated earnings before income taxes	\$ 188,741	\$ 164,761	\$ 131,143
Identifiable assets (including capital leases) at December 31:			
Stores Group	\$1,253,280	\$1,216,037	\$1,180,889
Dairies Group	114,799	120,313	116,051
Special Operations Group	97,122	96,463	95,617
Gasoline Supply	140,006	107,045	—
Corporate	237,377	132,313	103,685
Total identifiable assets	\$1,842,584	\$1,672,171	\$1,496,242
Capital expenditures (excluding capital leases):			
Stores Group	\$ 184,677	\$ 150,301	\$ 92,112
Dairies Group	15,966	14,213	9,656
Special Operations Group	11,164	11,462	10,712
Gasoline Supply	15,681	14,700	—
Corporate	109,800	33,215	2,030
	\$ 337,288	\$ 223,891	\$ 114,510
Depreciation and amortization expense:			
Stores Group	\$ 99,200	\$ 85,009	\$ 74,870
Dairies Group	8,648	7,930	7,474
Special Operations Group	5,327	4,538	4,488
Gasoline Supply	3,571	203	—
Corporate	4,955	3,151	3,015
	\$ 121,701	\$ 100,831	\$ 89,847

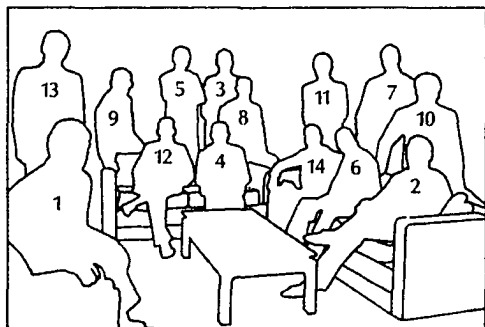
BOARD OF DIRECTORS

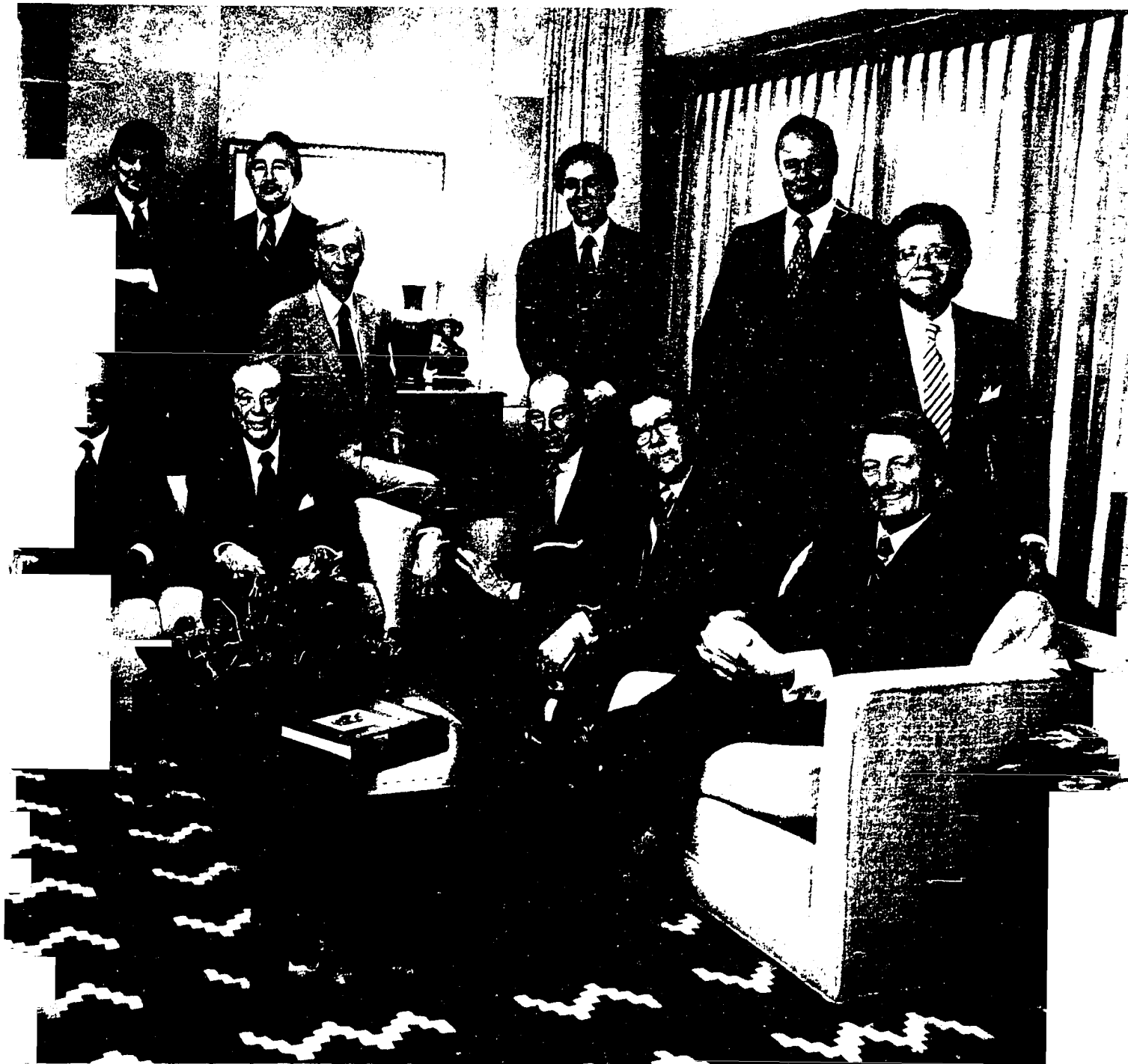
1. **JOHN P. THOMPSON** (1948)
Chairman of the Board and
Chief Executive Officer
2. **JERE W. THOMPSON** (1961)
President
3. **WILLIAM W. ATWELL**^{1,2} (1976)
Investments
4. **J. Y. BALLARD** (1937)
Consulting Engineer
5. **FRANK L. CARNEY** (1982)
Owner
Carney Enterprises
6. **WALTON GRAYSON, III** (1962)
Executive Vice President
7. **JOSEPH S. HARDIN** (1977)
Retired Executive
Vice President
8. **MARK L. LEMMON, M.D.**^{1,2} (1977)
Plastic and Reconstructive
Surgeon
9. **LEO E. LINBECK, JR.**¹ (1982)
Chairman and
Chief Executive Officer
Linbeck Construction Corporation
10. **CLARK J. MATTHEWS, II** (1981)
Executive Vice President
11. **WALTER M. MISCHER, JR.** (1982)
President
The Mischer Corporation
12. **ALAN C. SCHOELLKOPF**^{1,2} (1979)
Vice President
Rotan Mosle Inc.
13. **JODIE C. THOMPSON, JR.** (1979)
Executive Vice President
14. **CLIFFORD W. WHEELER** (1960)
Retired Vice President

(Date indicates year elected)

¹ Members of the Audit Committee

² Members of the Nominating Committee





SENIOR OFFICERS

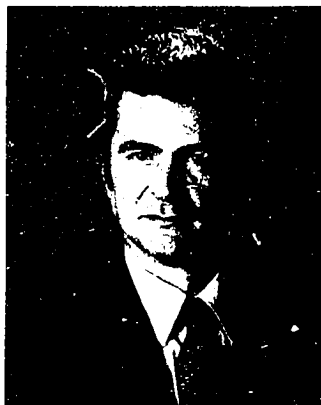
JOHN P. THOMPSON 57
Chairman of the Board and
Chief Executive Officer

JERE W. THOMPSON 50
President

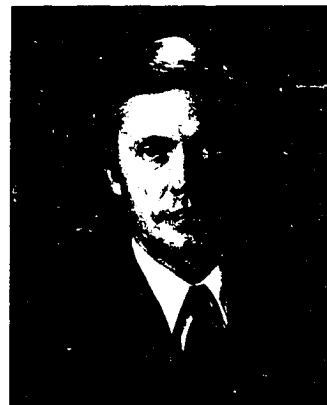
WALTON GRAYSON, III 54
Executive Vice President,
Administration and Services

CLARA J. MATTHEWS, II 46
Executive Vice President
and Chief Financial Officer

JODIE C. THOMPSON, JR. 42
Executive Vice President,
Retail



S. R. DOLE 45
Senior Vice President,
Stores Group



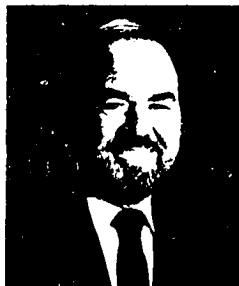
JAMES W. PARKER 44
Senior Vice President,
Manufacturing and Distribution

OPERATING OFFICERS

C. O. BESHEARS 56
Vice President,
Dairies Group

DONALD L. BURNSIDE 47
Vice President,
Western Stores Region

ADRIAN O. EVANS 46
Vice President,
Central Stores Region



JOSEPH S. HARDIN, JR. 37
Vice President,
Distribution

FRANK L. KITCHEN 46
Vice President,
Eastern Stores Region

JAMES R. LYNCH 45
Vice President,
Southeastern Stores Region

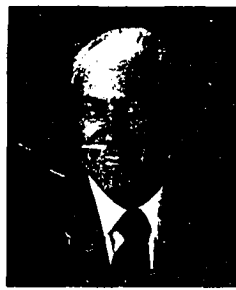


SAM J. SUSSE 43
Vice President,
Petroleum Products

RICHARD A. TURCHI 48
Vice President,
International

BILL M. WOOTTON 44
Vice President,
Southwestern Stores Region





STAFF OFFICERS

RULON R. BROUGH 59
Vice President,
Management Information
Services

M. T. COCHRAN, JR. 64
Vice President,
Special Properties

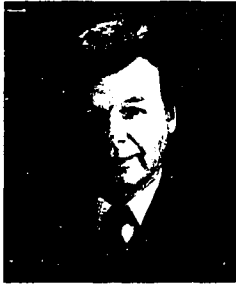
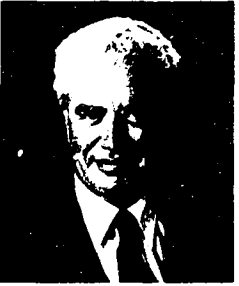
VAUGHN R. HEADY 62
Vice President



BEN M. HOLLAND 50
Vice President,
Development

BRUCE W. KRYSIAK 32
Vice President,
Marketing — Retail

P. EUGENE PENDER 51
Vice President
and Controller



L. MARK RIGG 49
Vice President,
Human Resources

JOHN H. RODGERS 38
Vice President
and General Counsel

HENRY T. STANLEY, JR. 46
Vice President,
Investor Relations



FORREST STOUT 64
Vice President

FRANK J. GANGI 41
Treasurer

R. G. SMITH 59
Secretary

SHAREHOLDER INFORMATION

SECURITIES LISTED:

New York Stock Exchange

Common Stock

8 $\frac{3}{8}$ % Sinking Fund Debentures

9 $\frac{3}{8}$ % Sinking Fund Debentures

9 $\frac{1}{2}$ % Sinking Fund Debentures

Luxembourg Stock Exchange

5% Convertible Subordinated Debentures (Convertible through Common Stock Transfer Agents as listed below)

TRANSFER AGENTS AND REGISTRARS:

Common Stock

(Before May 1, 1983)

InterFirst Bank Dallas, N.A.*

P.O. Box 83612

Dallas, TX 75283

(After May 1, 1983)

Mercantile National Bank in Dallas

P.O. Box 225415

Dallas, TX 75265

Texas: (800) 492-9734

Outside Texas: (800) 527-7844

8 $\frac{3}{8}$ % Sinking Fund Debentures

9 $\frac{3}{8}$ % Sinking Fund Debentures

9 $\frac{1}{2}$ % Sinking Fund Debentures

Mercantile National Bank in Dallas

P.O. Box 225415

Dallas, TX 75265

*As of June 30, 1983, InterFirst Bank Dallas will discontinue stock transfer activity. InterFirst notified Southland of this action on November 9, 1982.

AUDITORS:

Touche Ross & Co.

2001 Bryan Tower, Suite 2400

Dallas, TX 75201

ANNUAL MEETING:

The Annual Meeting of the Company will be held at 10 a.m. Wednesday, April 27, 1983, in the North Wing Auditorium of the Corporate Office, 2828 North Haskell Avenue, Dallas, Texas. All shareholders are cordially invited to attend.

FORM 10-K:

Shareholders may obtain a copy, exclusive of exhibits, of the Form 10-K Annual Report for the year ended December 31, 1982, filed with the Securities and Exchange Commission, by writing to the Investor Relations Department at the Company's mailing address.

AUTOMATIC STOCK PURCHASE PLAN:

This plan provides a simple, convenient and inexpensive way for shareholders to invest cash dividends and additional cash deposits in Southland stock. For further information, please write the Investor Relations Department at the Company's mailing address.

MAILING ADDRESS:

P.O. Box 719, Dallas, Texas 75221

TELEPHONE:

(214) 828-7011

 **THE SOUTHLAND CORPORATION**
P.O. BOX 719 • DALLAS, TEXAS 75221